

engage:BDR Limited

ABN 621 160 585

Annual Report - 31 December 2018

engage:BDR Limited

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31 December 2018

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engage:BDR Limited
Corporate directory
31 December 2018

| | |
|--------------------------------|---|
| Directors | Mr Ted Dhanik Mr Kurtis Rintala Mr Tom Anderson Mr Darian Pizem Mr Robert Antulov |
| Company secretary | Mr Justin Mouchacca |
| Registered office | Scottish House Level 4 90 William Street Melbourne Victoria 3000 Australia |
| Principal place of business | Suite 100 9220 Sunset Boulevard West Hollywood California 90069 USA |
| Share register | Computershare Investor Services Pty Limited Yarra Falls, 452 Johnston Street Abbotsford, VIC 3067 Telephone: +61 3 9415 5000 Fax: +61 3 9473 2500 |
| Auditor | BDO East Coast Partnership Collins Square, Tower Four Level 18, 727 Collins Street Melbourne VIC 3000 Australia |
| Stock exchange listing | engage:BDR Limited securities are listed on the Australian Securities Exchange (ASX code: EN1 and EN1O). |
| Website | engagebdr.com |
| Corporate Governance Statement | The Company's 2018 Corporate Governance Statement has been released to ASX on 29 March 2019 and is available on the Company's website. |

The Directors present their report, together with the financial report of engage:BDR Limited comprising engage:BDR Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2018 (referred to hereafter as 'engage:BDR' or the 'Group').

Directors

The following persons were directors of engage:BDR Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr Ted Dhanik (Co-Founder and Executive Chairman)
Mr Kurtis Rintala (Co-Founder and Executive Director)
Mr Tom Anderson (Non-Executive Director)
Mr Bruce McMenemy (Non-Executive Director) (resigned on 30 October 2018)
Mr Ron Phillips (Non-Executive Director) (resigned on 23 November 2018)
Mr Darian Pizem (Non-Executive Director) (appointed on 30 October 2018)
Mr Robert Antulov (Non-Executive Director) (appointed on 23 November 2018)

Principal activities

engage:BDR is an internet-based marketplace platform and associated technology solution provider. engage:BDR's proprietary technology is used to optimise the sale of advertising inventory from digital publishers (websites and apps) to advertisers and their agents (brands, agencies and advertising platforms). The ability to optimise the inventory from digital publishers to advertisers and their agents allows engage:BDR to play an active role in managing the ad exchange platform.

engage:BDR allows digital publishers to monetise their available advertising space by making the inventory available to multiple advertisers, as well as providing various related technologies designed to help publishers create additional incremental revenue streams. engage:BDR's ad exchange platform also allows publishers to sell space for video advertising on webpages that do not have video content.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$10,840,198 (31 December 2017: loss of \$10,566,001).

engage:BDR generates revenue from five principal activities (which are under two revenue streams – programmatic and non-programmatic):

Non-programmatic display advertising sales

The Group's Non-programmatic display advertising sales business is tag-based, traditionally sold and managed banner advertising campaigns run for direct advertisers. This was the Group's first product, initially launched in 2009 and remained a significant revenue contributor in 2018. The Group anticipates that this part of the Group's business will continue to decline as advertising buyers continue to migrate their business to more efficient and cost effective programmatic buying. engage:BDR is expecting to be able to deliver significantly increased trading margins as a consequence of moving to a near totally automated operation during 2019.

Programmatic display advertising sales

The Group's Programmatic display advertising sales business includes selling banner advertising inventory through the Group's digital auctioning technology to platforms and marketplaces. The Group developed this product to replace the traditional Non-Programmatic display advertising channel. Many of the Group's Non-programmatic buyers are still bidding on the Group's inventory through server-to-server connections. The adoption of programmatic display advertising sales has proved extremely successful in 2018 and opened additional revenue opportunities from the same clients, largely because programmatic buying and selling of advertising is much more efficient and significantly more cost effective to operate, thus increasing the Group's overall operating and gross profit margins.

Non-programmatic video advertising sales

The Group's Non-Programmatic video advertising sales business includes selling video inventory through tag-based technology to direct advertisers, platforms and marketplaces. The Group has spent the last three years developing its own proprietary video ad serving technologies and further expanding this part of the business by enabling both buying and selling of video in addition to its display business. The Group has significantly increased revenue per customer by integrating the video channel with the display buyers and sellers and opening business on the display ad side to customers that were originally integrating into the video business. The Company anticipates that the programmatic video business will eclipse this and all other ad formats over the next three to five years and accordingly dedicated significant financial resources to this part of the business in 2018 to encourage this shift.

Programmatic video advertising sales

The Group's Programmatic video advertising sales business grew significantly during the year as the Group continued to progress the development and launch of its programmatic and video advertising platforms. Significant achievements in the reporting period included considerable expansion of programmatic display and video partnerships and integrations and the launch of its true programmatic, real-time bidding buy-side and sell-side marketplace for video.

The Group's recently developed proprietary programmatic technology significantly increases the Group's operating margins by reducing payroll and associated sales commissions. With the rapid adoption of programmatic buying, brands, agencies and digital media buyers have moved their budgets to auction-based buying, in contrast to buying from sales people, individual RFP (request for proposal) and insertion orders. This behavioural change has made the marketplace much more efficient, significantly reducing the staff overhead required to sell advertising in the traditional way.

Advertising buyers, through the Group's programmatic platform, are essentially bidding for advertising inventory in real time in dynamic auctions, which occur in milliseconds while the relevant web page is loading. This new engage:BDR format has created significant barriers to entry for new companies looking to enter the digital advertising arena. Companies must realistically own and develop their own proprietary technology to be able to participate in the rapidly developing programmatic advertising ecosystem as licensing third party technologies is cost-prohibitive. engage:BDR has developed its own real-time auctioning and bidding technologies which provide it with a significant competitive advantage. engage:BDR has established thousands of direct publisher relationships which is a key differentiator and competitive advantage for the Group in an ecosystem which is experiencing inventory quality issues, brokers and middlemen.

Non-Programmatic Influencer Marketing

The Group launched its social influencer marketing platform in 2017. It dedicated engineering and account management resources to further develop and refine its technology and client base in 2018. The Group brought in incremental revenue through this platform and further diversification of the Group's product and service offering. With Instagram influencers becoming extremely popular, new marketing channels for advertisers and platform efficiencies are required to scale this new form of media. IconicReach, engageBDR's Instagram influencer self-serve platform, is focused on being the largest marketplace focused on advertiser-supplied creative, creating a scalable and efficient revenue stream for micro and macro influencers with large audiences. The Group anticipates that several thousand influencers and at least 25 brands will join the IconicReach platform in 2019.

Significant changes in the state of affairs

On 27 February 2018, the Company issued 2,745,721 fully paid ordinary shares on conversion of the Convertible Notes at \$0.20 (20 cents) per share.

On 3 May 2018, the Company announced that it signed a binding Term Sheet to acquire 100% of the shares in USA based digital media and advertising company AdCel Inc. ("AdCel") for USD \$4.5 million, payable in fully paid shares in engage:BDR Limited to be issued to the vendors at the equivalent of \$0.22 (22 cents) per share, and USD \$1 million in cash.

On 10 May 2018, the Company issued 12,500,000 fully paid ordinary shares to a range of institutional and sophisticated investors at a price of \$0.16 (16 cents) per share, raising a total of \$2,000,000 before costs of issue.

On 10 May 2018, the Company issued 2,250,000 fully paid ordinary shares at a price of \$0.16 (16 cents) per share as payment for consulting services provided to the Company.

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On 15 June 2018, the Company issued 1,290,625 fully paid ordinary shares under a Share Purchase Plan at a price of \$0.16 (16 cents) per share, raising a total of \$206,500 before costs of issue.

On 15 June 2018, the Company issued 484,539 fully paid ordinary shares on conversion of the Convertible Notes at a deemed issue price of \$0.16 (16 cents) per share.

On 30 July 2018, the Company announced that the Adcel acquisition had been completed with revised consideration of USD \$3.515 million in fully paid ordinary shares in engage:BDR Limited to be issued at the equivalent of AUD \$0.22 (22 cents) per share.

On 31 August 2018, the Company issued 3,750 fully paid ordinary shares under the Share Purchase Plan at a price of \$0.16 (16 cents) per share, raising a total of \$600 before costs of issue.

On 31 August 2018, the Company issued 11,071,951 fully paid ordinary shares at a price of \$0.22 (22 cents) per share as consideration for the Adcel acquisition. Of these 6,523,453 were subject to a six month voluntary escrow.

On 12 September 2018, the Company issued 5,458,200 fully paid ordinary shares at a deemed issue price of \$0.075 (7.5 cents) per share to new employees of the Company, in accordance with their employment agreements.

On 19 November 2018, the Company announced that it had obtained funding of up to \$US1.5 million (approximately \$A2.07 million) by way of a convertible loan under a convertible securities agreement. 750,000 loan notes were issued initially at \$USD0.95 per note with a face value of \$US1.00 per note. Loans made under this facility would be secured by a future issue of shares in the Company.

On 30 November 2018, the Company issued 3,100,000 fully paid ordinary shares at a deemed issue price of \$0.047 (4.7 cents) per share as partial security for the convertible loan announced on 19 November 2018.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

On 21 January 2019 the Company announced that two new recently signed integrations, Third Presence and AcuityAds, had gone live.

On 25 January 2019, the Company issued 25,099,423 fully paid ordinary shares to professional and sophisticated investors at a price of \$0.028 (2.8 cents) per share, raising a total of \$702,784 before costs of issue.

On 30 January 2019, the Company issued 13,471,396 fully paid ordinary shares on conversion of 106,188 convertible notes at a conversion price of \$0.011 (1.1 cents) per share.

On 30 January 2019, the Company issued:

- 625,000 unlisted convertible notes issued at USD\$0.90 per Note with a face value of USD\$1.00 per Note. Notes are secured with a Maturity date of 19 November 2019. The Notes are convertible at the lesser of AUD0.09 (9 cents) converted into USD, and a market share price-derived amount. These convertible notes replaced the 625,000 Loan Notes outstanding from the Loan Note issue made in November 2018.
- 1,900,000 fully paid ordinary shares at a deemed issue price of \$0.06 (6 cents) per share as the remaining security for the convertible notes.
- 8,676,093 unlisted options exercisable at \$0.052, expiring 29 January 2022.

On 4 February 2019, the Company issued 9,028,597 fully paid ordinary shares on conversion of 85,052 convertible notes at a conversion price of \$0.013 (1.3 cents) per share.

On 18 February 2019, the Company issued 7,498,236 fully paid ordinary shares on conversion of 92,500 convertible notes at a conversion price of \$0.018 (1.8 cents) per share.

On 18 February 2019 the Company announced a new integration, Comcast Freewheel.

On 25 February 2019 the Company announced two new integrations, MobFox and Chalk Digital.

On 28 February 2019, the Company issued the following:

- 589,300 fully paid ordinary shares to a consultant in lieu of consulting fees at a deemed issue price of \$0.051 (5.1 cents) per share;
- 2,000,000 fully paid ordinary shares to a consultant in lieu of consulting fees at a deemed issue price of \$0.022 (2.2 cents) per share;
- 18,607,945 fully paid ordinary shares for settlement of outstanding creditor balances at a deemed issue price of \$0.021 (2.1 cents) per share.

On 8 March 2019, the Company issued the following:

- 10,657,140 fully paid ordinary shares to satisfy the deferred consideration at 31 December 2018 for the Company's acquisition of AdCel LLC as per the Company's announcement on 30 July 2018, at a deemed issued price of \$0.22 (22 cents) per share;
- 4,000,000 listed options as consideration for corporate advisory services, exercisable at \$0.25 (25 cents) per option by 22 December 2020.

On 18 March 2019, the Company issued the following:

- 11,347,597 fully paid ordinary shares on conversion of 117,500 unlisted convertible notes at a conversion price of \$0.015 (1.5 cents) per share;
- 12,467,980 fully paid ordinary shares for settlement of outstanding creditor balances at a deemed issue price of \$0.031 (3.1 cents) per share.

On 20 March 2019, the Company issued 17,719,531 fully paid ordinary shares on conversion of 188,760 unlisted convertible notes at a conversion price of \$0.015 (1.5 cents) per share.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Growth of video revenue on the proprietary platforms (programmatic and tagbased)

As a consequence of the fact that the Group's platform is now completed and a number of partnerships have been established, the Group expects to grow video revenues significantly in 2019. This revenue will be less dependent on third party technologies than prior video advertising revenues were. In addition, the gross margins expected to be achieved by the Group are likely to increase significantly as the Group is no longer required to rely on third-party platforms which charge a significant (almost 50%) share of the Group's gross margin. In addition to the growth of the video business (tag-based), the addition of programmatic video will enable much quicker scale and greater revenue per client (and shorter ramp-up periods). As the supply and demand partnerships are integrated by the engineering teams, the revenue is expected to steadily grow throughout the year.

Continued growth of programmatic display revenue

The Group also expects to see continued growth of its programmatic display business. Through monetisation of existing partnerships and creation of new ones, the Group expects to be able to significantly scale revenue while maintaining its lower cost operations. As more non-programmatic buyers and sellers migrate to purely programmatic environments, the Group expects revenue per customer to increase dramatically. This enables optimisation of the Group's existing relationships and the ability to attract new buyers and sellers.

Growth of influencer marketing revenue

The Group launched its social influencer marketing platform in mid-2017. It brought in additional incremental revenue through this platform and further diversification of the Group's product and service offering. With Instagram influencers becoming extremely popular, new marketing channels for advertisers and platform efficiencies are required to scale this new form of media. IconicReach, engageBDR's Instagram influencer self-serve platform, is focused on being the largest marketplace focused on advertiser-supplied creative, creating a scalable and efficient revenue stream for micro and macro influencers with large audiences. The Group anticipates that several thousand influencers and at least 25 brands will join the IconicReach platform in 2019.

The Board wants to thank those shareholders who supported the Company in its first year as a publicly traded company and since and is extremely confident of the Group's progress as it moves more of its business to the significantly more efficient, scalable and higher margin programmatic format.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

| | |
|--------------------------------------|--|
| Name: | Mr Ted Dhanik |
| Title: | Co-Founder, Executive Chairman and Chief Executive Officer (appointed 14 December 2017) |
| Experience and expertise: | <p>Ted Dhanik is one of the co-founders of engage:BDR LLC. He serves as Chief Executive Officer overseeing corporate development, strategic marketing, sales and business development, and product strategy.</p> <p>From 2003 to 2008, Ted worked with MySpace.com developing strategic marketing initiatives. He worked very closely with founders Chris DeWolfe and Tom Anderson and was responsible for launching the brand in its early days through a combination of on and offline campaigns. Ted also worked in business development at LowerMyBills.com until its acquisition by Experian. Ted was also an integral part of the development and launch of the consumer lending program at NexTag Corporation.</p> <p>He has worked for, or been a partner at, several other companies in business development, sales, and managerial positions, including Xoriant Corporation, Atesto Technologies, Brigade Solutions, Beyond.com/Cybersource Corporation and Merrill Corporation.</p> <p>Ted also advises a number of technology startups including Fighter, LottoGopher and Schizo Pictures and is an active mentor at Los Angeles-based startup accelerator Start Engine. He is passionate about being a thought leader in the industry and he is regularly published in leading publications.</p> <p>He regularly contributes to discussions about industry standards and achieving positive change, sitting on IAB committees including the Anti-fraud Workgroup, Anti-malware Workgroup, Traffic of Good intent Task Force, Programmatic Counsel, Digital Video Committee, Mobile Advertising Committee and Performance Marketing Committee.</p> |
| Other current directorships: | Nil |
| Former directorships (last 3 years): | Nil |
| Interests in shares: | 57,681,498 fully paid ordinary shares (27,974,935 escrowed for 24 months to 14 December 2019) |
| Interests in options: | Nil |
| Interests in rights: | Nil |

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Name: Mr Kurtis Rintala
Title: Co-Founder, Executive Director and Chief Operating Officer (appointed on 14 December 2017)
Experience and expertise: Kurtis Rintala was one of the co-founders of engage:BDR LLC. and serves as the Chief Operating Officer for the Group overseeing day-to-day operations and leading the execution of the strategic direction of the Group.

Kurtis is responsible for establishing policies that promote the Group culture and vision. He sets comprehensive goals for performance and growth and encourages optimum performance and dedication. He evaluates performance by analysing and interpreting data and metrics.

Kurtis began his career in the technology industry in 2003 as an early member of the successful internet startup, LowerMyBills.com.

Other current directorships: Nil
Former directorships (last 3 years): Nil
Interests in shares: 36,717,391 fully paid ordinary shares (17,608,695 escrowed for 24 months to 14 December 2019)
Interests in options: Nil
Interests in rights: Nil

Name: Mr Tom Anderson
Title: Non-Executive Director (appointed 14 December 2017)
Experience and expertise: Tom Anderson was appointed to the Board of the Group as a Non Executive Director to provide the Group with the benefit of his wide ranging expertise in social media and innovative product design and to assist to steer the Group's future growth strategy.

Prior to joining the engage:BDR, Tom founded and served as President of MySpace, simultaneously inventing "social media" while revolutionizing the music industry. After its launch in 2003, MySpace became the #1 most visited site on the web quickly, surpassing companies such as Google, Yahoo and Amazon. At its peak, Nielsen Net Ratings reported that MySpace captured more than 10% of all minutes spent online.

By the time Anderson left the company in 2009, he had amassed more than 350 million friends on MySpace, making him the first and still ultimately the biggest "influencer" of all time. His MySpace profile photo, which he never changed and still uses to this day is estimated to have been viewed more times than any single photograph in history.

Before retiring in 2009, TIME Magazine included Tom among its list of the 100 most influential people in the world, and Barbara Walters named him one of her 10 Most Fascinating People.

Since retiring, Tom has become an internationally recognised photographer, traveling to more than 40 countries in pursuit of his passion. Tom's photos have appeared in countless magazines, newspapers, and websites. He now also has a keen interest in architecture and has designed a number of homes. He splits his time between his homes in Las Vegas, Hawaii and Los Angeles.

Prior to his entrepreneurial and creative pursuits, Tom graduated with the Departmental Citation in English and Rhetoric at the University of California at Berkeley and later completed a Masters in Film & Critical Studies at UCLA.

Other current directorships: Nil
Former directorships (last 3 years): Nil
Interests in shares: 1,500,000 fully paid ordinary shares (750,000 escrowed for 24 months to 14 December 2019)
Interests in options: Nil
Interests in rights: Nil

Name: Mr Darian Pizem
Title: Non-Executive Director (appointed 30 October 2018)
Experience and expertise: Darian Pizem is the Co-Founder and current CEO of Blockbuster Ventures based in Sydney. Blockbuster is a blockchain development company that assists companies in the development of blockchain technology, real-time deployment, commercialisation, and other cost-saving measures.

In addition, Mr. Pizem is the founder of Australian based company, Lunna Ventures. Lunna Ventures assists in the launching of start-up businesses in a variety of industries, ranging from healthcare to finance. Lunna assists Company's through all stages of the businesses development, cycle from the initial idea phase through to branding, partnerships and funding.

Prior to founding his two businesses, Mr. Pizem worked as a Channel Partner for Australia's DX Solutions, an ICT solutions and delivery service provider. DX specialties in automation, performance requirements, security and penetration testing, DevOps and Cloud solutions, BI and Analysis and Network E2E and B2B capabilities.

Mr. Pizem has over 15 years of experience in the tech industry, working to promote company growth, innovation, and driving new ideas and concepts. He has a strong background in software ventures, with a focus on marketing, operations and management.

Other current directorships: Nil
Former directorships (last 3 years): Nil
Interests in shares: Nil

Name: Mr Robert Antulov
Title: Non-Executive Director (appointed 23 November 2018)
Experience and expertise: Robert (Rob) Antulov is a Partner at boutique Australian corporate advisory firm Jacanda Capital, where he provides advice to clients in the technology and media sectors on trade sales, acquisitions and equity growth capital raisings.

Based in Sydney, Rob is a highly accomplished Director with experience in public, private and not for profit enterprises, primarily in the tech and media sectors. He has extensive digital media expertise with strong capabilities in the implementation of technology-oriented growth strategies, most recently in digital media, programmatic advertising and online marketplaces. Rob also brings to engage:BDR specific M&A skills, having participated in over forty corporate transactions as either principal or advisor.

Previous corporate experience has included senior executive roles with Fairfax, Coca-Cola and Booz & Co (now PwC Strategy&). His entrepreneurial activity includes co-founding a sports digital media business, co-founding a number of ecommerce and SaaS businesses and providing mentoring and Advisory Board guidance to numerous entrepreneurs and their ventures.

Rob has a Bachelor of Engineering Degree (Elect) from the University of Western Australia, an MBA from the Australian Graduate School of Management at UNSW and has completed additional postgraduate studies in the USA at the Kellogg School of Management, North Western University.

Other current directorships: Nil
Former directorships (last 3 years): Director, Snakk Limited (NXT: SNK) - January 2016 to October 2018
Interests in shares: 665,500 fully paid ordinary shares
Interests in options: Nil

Name: Mr Bruce McMenamin (resigned in October 2018)
Title: Non-Executive Director and Company Secretary
Experience and expertise: Bruce McMenamin was appointed to the Board of the Group as a Non-Executive Director, in addition to his role as Company Secretary in August 2017. Bruce is a member of the Institute of Chartered Accountants ANZ. He has over 35 years' experience as a practicing accountant and professional advisor. He specialises in all levels of business strategy, corporate finance, mergers and acquisitions.

As an adviser to some of Australia's largest privately owned companies and high net worth families he has been involved in many significant corporate transactions and resultant operations. He has been a member of numerous audit and finance committees and has a strong focus on governance and compliance.

Other current directorships: Nil
Former directorships (last 3 years): Nil
Interests in shares: 103,125 fully paid ordinary shares on the date of resignation
Interests in options: 12,500 listed options on the date of resignation, exercisable at \$0.25 (25 cents), expiring 2 October 2020,

Name: Mr Ron Phillips (resigned in November 2018)
Title: Non-Executive Director
Experience and expertise: Ron Phillips's career has spanned five decades of experience in advertising, marketing, media and communications across full service advertising agencies and specialist media communication networks. His client experience includes responsibility for some of the largest master media contracts in retail, leisure and entertainment and Government.

As a Company Director and Media Director Ron has managed significant global brands. Over the last decade with the Dentsu Aegis Network. Ron has worked closely with businesses specialising in performance media, automation, analytics and insight, digital, creative, influence, social media, content and lifestyle.

Ron has made a significant contribution to industry education with RMIT University and in 2009 was awarded an Honorary Life Fellowship of the Advertising Institute of Australia (AIA) in recognition of a lifetime of encouragement and support for advertising education. Ron has also contributed in the "not for profit" sector and has done significant pro bono work.

Other current directorships: Nil
Former directorships (last 3 years): Nil
Interests in shares: 77,500 fully paid ordinary share on the date of resignation

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Mr. Justin Mouchacca CA (appointed on 30 October 2018)

Mr Mouchacca holds a Bachelor of Business majoring in Accounting. Justin became a Chartered Accountant in 2011 and since July 2013 has been a principal of chartered accounting firm, Leydin Freyer Corp Pty Ltd, specialising in outsourced company secretarial and financial duties. Justin has over 11 years' experience in the accounting profession including 5 years in the Corporate Secretarial professions and is a company secretary and finance officer for a number of entities listed on the Australian Securities Exchange.

Mr. Bruce McMenamin (resigned on 30 October 2018)

Mr. McMenamin was appointed to the Board of the Group as a Non-Executive Director, in addition to his role as Company Secretary in August 2017. Bruce is a member of the Institute of Chartered Accountants ANZ. He has over 35 years' experience as a practicing accountant and professional advisor. He specialises in all levels of business strategy, corporate finance, mergers and acquisitions.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 31 December 2018, and the number of meetings attended by each director were:

| | Full Board | |
|--------------------|------------|------|
| | Attended | Held |
| Ted Dhanik | 4 | 4 |
| Kurtis Rintala | 4 | 4 |
| Tom Anderson | 2 | 4 |
| Darian Pizem* | 1 | 1 |
| Robert Antulov** | 1 | 1 |
| Bruce McMenamin*** | 3 | 3 |
| Ron Phillips**** | 3 | 3 |

Held: represents the number of meetings held during the time the director held office.

* Mr Pizem was appointed on 30 October 2018.

** Mr Antulov was appointed on 23 November 2018.

*** Mr McMenamin resigned on 30 October 2018.

**** Mr Phillips resigned on 23 November 2018.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having net profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

Executive remuneration

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary and non-monetary benefits, is reviewed annually by the Board based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

In prior year, share based payments (in Engage BDR LLC) had been issued to executives and a non-executive director, which were prior to the IPO. These were issued in respect of services performed for the Group. Refer to Note 30 of the financial report contained within this Annual Report for further details. All Directors and key management personnel did not receive any share based payments in 2018 financial year.

Details of remuneration

The key management personnel of the Group consisted of the following directors and key management personnel:

- Ted Dhanik (Executive Chairman and Chief Executive Officer)
- Kurtis Rintala (Executive Director and Chief Operating Officer)
- Tom Anderson (Non-Executive Director)
- Darian Pizem (Non-Executive Director) (appointed on 30 October 2018)
- Robert Antulov (Non-Executive Director) (appointed on 23 November 2018)
- Bruce McMenemy (Non-Executive Director) (resigned on 30 October 2018)
- Ron Phillips (Non-Executive Director) (resigned on 23 November 2018)
- Andy Dhanik (Vice President of Demand)

Amounts of remuneration

Details of the remuneration of key management personnel of the Group are set out in the following tables.

| | Short-term benefits | | | Post-employment benefits | Loan forgiveness | Share-based payments | Total |
|--|----------------------|-------------------|--------------|--------------------------|------------------|----------------------|-----------|
| | Cash salary and fees | Commission /bonus | Non-monetary | 401(k) | | Equity-settled | |
| 2018 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | |
| Bruce McMenemy (a) | 36,828 | - | - | - | - | - | 36,828 |
| Ron Phillips (b) | 40,326 | - | - | - | - | - | 40,326 |
| Robert Antulov (c) | 1,973 | - | - | - | - | - | 1,973 |
| Darian Pizem (d) | 4,822 | - | - | - | - | - | 4,822 |
| <i>Executive Directors:</i> | | | | | | | |
| Ted Dhanik (f) | 288,155 | 361,251 | 6,163 | 1,810 | - | - | 657,379 |
| Kurtis Rintala (f) | 294,850 | 318,678 | 7,233 | - | - | - | 620,761 |
| <i>Other Key Management Personnel:</i> | | | | | | | |
| Andy Dhanik (e) | 234,322 | 251,059 | 6,223 | - | - | - | 491,604 |
| | 901,276 | 930,988 | 19,619 | 1,810 | - | - | 1,853,693 |

(a) Mr McMenemy resigned on 30 October 2018.

(b) Mr Phillips resigned on 23 November 2018.

(c) Mr Antulov was appointed on 23 November 2018.

(d) Mr Pizem was appointed on 30 October 2018.

(e) Commissions are earned by Mr Andy Dhanik based on performance to goal. Generally, these performance goals are driven by sales targets and gross profit maximization. Sales and gross margin targets are based on forecasts. Actual performance to goal is compared to arrive at an "Achieved" percentage which is used to determine which Tier of payout they will receive. < 50% is given a 0% payout tier, 51-69% is given a 50% payout tier, 70-79% is given a 70% payout tier, 80-89% is given a 80% payout tier, 90-99% is given a 90% payout tier, and 100% is given a 100% payout tier. The payout tier is then multiplied by the result of dividing the maximum payout amount by the target to arrive at a "Payout Percentage". The payout percentage is then multiplied by the actual achieved result to arrive at the dollar amount of the payout.

(f) Bonus awards of \$361,251 to Mr Ted Dhanik, \$318,678 to Mr Kurtis Rintala were agreed to be made on 20 December 2018 in recognition of past additional or special exertions on behalf of the Company since their respective commencements as Directors. These bonuses were off set against part of loan accounts. As a result no cash payments were made by the Company.

| 2017 | Short-term benefits | | | Post-employment benefits | Loan forgiveness | Share-based payments | Total |
|--|----------------------|-----------------------|--------------|--------------------------|------------------|----------------------|------------------|
| | Cash salary and fees | Commission /bonus (1) | Non-monetary | 401(k) | | Equity-settled | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | |
| Tom Anderson* | 2,447 | - | - | - | - | 130,492 | 132,939 |
| Bruce McMenamin* | 1,667 | - | - | 158 | - | - | 1,825 |
| Ron Phillips* | 1,667 | - | - | 158 | - | - | 1,825 |
| <i>Executive Directors:</i> | | | | | | | |
| Ted Dhanik** | 469,770 | - | - | 1,924 | - | - | 471,694 |
| Kurtis Rintala** | 469,770 | - | - | - | - | - | 469,770 |
| <i>Other Key Management Personnel:</i> | | | | | | | |
| Kevin Kwok*** | - | - | - | - | - | 561,115 | 561,115 |
| Youqi Li | 179,377 | 1,794 | - | - | - | 130,492 | 311,663 |
| Ryan Davidson**** | 48,934 | - | - | 415 | 108,419 | 104,393 | 262,161 |
| Sarah Wetzell | 163,115 | 18,024 | - | - | - | 97,869 | 279,008 |
| Andy Dhanik | 130,492 | 320,682 | - | - | - | 260,984 | 712,158 |
| Mona Jalali | 195,738 | 61,548 | - | - | - | 130,492 | 387,778 |
| | <u>1,662,977</u> | <u>402,048</u> | <u>-</u> | <u>2,655</u> | <u>108,419</u> | <u>1,415,837</u> | <u>3,591,936</u> |

* Mr Tom Anderson, Mr Bruce McMenamin and Mr Ron Phillips were appointed as non-executive directors with effect from the date of the incorporation on 17 August 2017.

** Amounts stated above for Mr Ted Dhanik and Mr Kurtis Rintala are higher than disclosed in the Supplementary Prospectus dated 15 September 2017 as prior to the successful listing of the Company on the ASX on 14 December 2017 their salaries and fees were calculated under a different employment agreement.

*** Mr Kevin Kwok was appointed as CFO with effect January 2017 and resigned with effect January 2018.

**** Mr Ryan Davidson resigned with effect March 2017. His salary includes an amount of \$108,419 in relation to loan forgiveness, as upon termination the Group agreed to forgive his outstanding loan balance.

(1) Commissions are earned by calendar quarter based on performance to goal. Generally, these performance goals are driven by sales targets and gross profit maximization. Sales and gross margin targets are based on forecasts. Actual performance to goal is compared to arrive at an "Achieved" percentage which is used to determine which Tier of payout they will receive. < 50% is given a 0% payout tier, 51-69% is given a 50% payout tier, 70-79% is given a 70% payout tier, 80-89% is given a 80% payout tier, 90-99% is given a 90% payout tier, and 100% is given a 100% payout tier. The payout tier is then multiplied by the result of dividing the maximum payout amount by the target to arrive at a "Payout Percentage". The payout percentage is then multiplied by the actual achieved result to arrive at the dollar amount of the payout.

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The proportion of remuneration linked to performance and the fixed proportion are as follows:

| Name | Fixed remuneration | | STI - sales commission | | Share based payments | |
|--|--------------------|------|------------------------|------|----------------------|------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| <i>Non-Executive Directors:</i> | | | | | | |
| Tom Anderson | 100% | 2% | - | - | - | 98% |
| Bruce McMenamin | 100% | 100% | - | - | - | - |
| Ron Phillips | 100% | 100% | - | - | - | - |
| Robert Antulov | 100% | - | - | - | - | - |
| Darian Pizem | 100% | - | - | - | - | - |
| <i>Executive Directors:</i> | | | | | | |
| Ted Dhanik | 100% | 100% | - | - | - | - |
| Kurtis Rintala | 100% | 100% | - | - | - | - |
| <i>Other Key Management Personnel:</i> | | | | | | |
| | - | - | - | - | - | 100% |
| Youqi Li* | - | 58% | - | - | - | 42% |
| Ryan Davidson* | - | 32% | - | - | - | 68% |
| Sarah Wetzel* | - | 58% | - | 6% | - | 36% |
| Andy Dhanik | 48% | 18% | 52% | 45% | - | 37% |
| Mona Jalali* | - | 50% | - | 16% | - | 34% |

* These employees are no longer considered as key management personnel in accordance with AASB 124.

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

| | |
|----------------------|---|
| Name: | Ted Dhanik |
| Title: | Executive Chairman and Chief Executive Officer |
| Agreement commenced: | 14 December 2017 |
| Term of agreement: | 3 years subject to re-election at any relevant Company Annual General Meeting. |
| Details: | The fee payable to Director is to be USD\$235,000 plus statutory superannuation entitlements per annum from the commencement date. Such fees to be reviewed on each anniversary of the agreement or whenever determined by the Board. |

Where for any reason the fees owing to the Director for the services of the Director are not paid for any period of the engagement, or where there are any fees or monies outstanding to Director, the Company will accrue those fees and Director may at its sole option agree for those fees to be paid in the form of fully paid ordinary shares in the Company, subject at all times to the Company obtaining all necessary regulatory and shareholder approvals.

The Director may resign at any time by given written notice to the Company.

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Name: Kurtis Rintala
Title: Executive Director and Chief Operating Officer
Agreement commenced: 14 December 2017
Term of agreement: 3 years subject to re-election at any relevant Company Annual General Meeting.
Details: The fee payable to Director is to be USD\$235,000 plus statutory superannuation entitlements per annum from the commencement date. Such fees to be reviewed on each anniversary of the agreement or whenever determined by the Board.

Where for any reason the fees owing to the Director for the services of the Director are not paid for any period of the engagement, or where there are any fees or monies outstanding to Director, the Company will accrue those fees and Director may at its sole option agree for those fees to be paid in the form of fully paid ordinary shares in the Company, subject at all times to the Company obtaining all necessary regulatory and shareholder approvals.

The Director may resign at any time by given written notice to the Company.

Name: Darian Pizem
Title: Non-Executive Director
Agreement commenced: 30 October 2018
Term of agreement: 3 years subject to re-election at any relevant Company Annual General Meeting.
Details: The fee payable to Director is to be AUD\$40,000 plus statutory superannuation entitlements per annum from the commencement date. Such fees to be reviewed on each anniversary of the agreement or whenever determined by the Board.

Where for any reason the fees owing to the Director for the services of the Director are not paid for any period of the engagement, or where there are any fees or monies outstanding to Director, the Company will accrue those fees and Director may at its sole option agree for those fees to be paid in the form of fully paid ordinary shares in the Company, subject at all times to the Company obtaining all necessary regulatory and shareholder approvals.

The Director may resign at any time by given written notice to the Company.

Name: Robert Antulov
Title: Non-Executive Director
Agreement commenced: 23 November 2018
Term of agreement: 3 years subject to re-election at any relevant Company Annual General Meeting.
Details: The fee payable to Director is to be AUD\$40,000 plus statutory superannuation entitlements per annum from the commencement date. Such fees to be reviewed on each anniversary of the agreement or whenever determined by the Board.

Where for any reason the fees owing to the Director for the services of the Director are not paid for any period of the engagement, or where there are any fees or monies outstanding to Director, the Company will accrue those fees and Director may at its sole option agree for those fees to be paid in the form of fully paid ordinary shares in the Company, subject at all times to the Company obtaining all necessary regulatory and shareholder approvals.

The Director may resign at any time by given written notice to the Company.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Additional information

The earnings of the consolidated entity for the five years to 31 December 2018 are summarised below:

| | 2018 | 2017 | 2016* | 2015* | 2014* |
|--------------------------------|--------------|--------------|-------------|-------------|------------|
| | \$ | \$ | \$ | \$ | \$ |
| Sales revenue | 11,443,935 | 13,135,970 | 21,845,216 | 36,919,027 | 28,537,625 |
| EBITDA | (7,860,955) | (7,098,066) | (1,455,961) | (2,491,012) | 547,016 |
| EBIT | (10,476,446) | (9,583,419) | (2,927,728) | (3,302,832) | 178,181 |
| Profit/(loss) after income tax | (10,840,198) | (10,566,001) | (3,671,811) | (3,664,495) | 182,776 |

* The financial result represents engage:BDR LLC's operating result for the year.

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Received as part of remuneration | Additions | Other* | Balance at the end of the year |
|------------------------|----------------------------------|----------------------------------|----------------|---------------------|--------------------------------|
| <i>Ordinary shares</i> | | | | | |
| Ted Dhanik | 55,949,870 | - | - | - | 55,949,870 |
| Kurtis Rintala | 35,217,391 | - | - | - | 35,217,391 |
| Tom Anderson | 1,500,000 | - | - | - | 1,500,000 |
| Robert Antulov | - | - | 665,500 | - | 665,500 |
| Bruce McMenemy | 25,000 | - | 78,125 | (103,125) | - |
| Ron Phillips | 40,000 | - | 37,500 | (77,500) | - |
| Kevin Kwok | 6,450,000 | - | - | (6,450,000) | - |
| Youqi Li | 1,500,000 | - | - | (1,500,000) | - |
| Sarah Wetzel | 1,125,000 | - | - | (1,125,000) | - |
| Andy Dhanik | 3,000,000 | - | - | - | 3,000,000 |
| Mona Jalali | 1,500,000 | - | - | (1,500,000) | - |
| | <u>106,307,261</u> | <u>-</u> | <u>781,125</u> | <u>(10,755,625)</u> | <u>96,332,761</u> |

* Movements represent person's holding when they ceased to be a member of key management personnel

Option holding

The number of options over ordinary shares in the Group held during the financial year by each director and other members of key management personnel of the Group, including their closely related entities, is set out below:

| | Balance at the start of the year | Free attaching options | Exercised | Expired/ forfeited/ other* | Balance at the end of the year |
|-------------------------------------|----------------------------------|------------------------|-----------|----------------------------|--------------------------------|
| <i>Options over ordinary shares</i> | | | | | |
| Bruce McMenemy | 12,500 | - | - | (12,500) | - |
| | <u>12,500</u> | <u>-</u> | <u>-</u> | <u>(12,500)</u> | <u>-</u> |

* Movements represent person's holding when they ceased to be a member of key management personnel

Loans to key management personnel and their related parties

As at 31 December 2018 the Group recognised a loan receivable for funds payable by Mr Ted Dhanik (USD\$1,313,754; AUD\$1,864,598) (2017: USD\$1,299,577; AUD\$1,663,109), Kurtis Rintala (USD\$0.00; AUD\$0.00) (2017: USD\$196,625; AUD\$251,627) and Andy Dhanik (USD\$71,060; AUD\$100,855) (2017: USD\$79,743; AUD\$102,050).

Loans to directors and key management personnel are charged interest at a simple interest rate of 2.78% per annum, calculated monthly. This interest rate is below what would be charged should these loans be on an arms-length basis. The loans made to both directors and key management personnel are repayable within two years, with all loans as at 31 December 2018 having a maturity date of 30 June 2019. These have been disclosed as current receivables. The loan amounts outstanding are secured and will be settled in cash. No guarantees have been given or received. All loans were approved by the Board of Directors of the Group.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of the Company under option at the date of this report are as follows:

| Grant date | Expiry date | Exercise price | Number under option |
|------------------|------------------|----------------|---------------------|
| 14 December 2017 | 14 December 2020 | \$0.250 | 33,999,993 |
| 30 January 2019 | 29 January 2022 | \$0.052 | 8,676,093 |
| | | | <u>42,676,086</u> |

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of engage:BDR Limited issued on the exercise of options during the year ended 31 December 2018 and up to the date of this report.

Indemnity and insurance of officers

During the financial year, the Group maintained an insurance policy which indemnifies the directors and officers of the Group in respect of any liability incurred in connection with the performance of their duties as directors or officers of the Group to the extent permitted by the Corporations Act 2001. The Group's insurers have prohibited disclosure of the amount of the premium payable and the level of indemnification under the insurance contract.

The Group has not paid any insurance premiums in respect of any past or present directors or auditors, other than as required by law.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the Group

As at the date of this report, there are no leave applications or proceedings brought on behalf of the Group under section 237 of the Corporations Act 2001.

Non-audit services

The Group's previous auditors Ernst & Young ("EY") provided non-audit services in relation to tax compliance and other accounting services to the Group for which \$248,000 was paid or payable by the Group. The Directors are satisfied that the provision of the non-audit services was compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of the non-audit services provided was not such that auditor independence was compromised. The Group's current auditors, BDO, did not provide any non-audit services in relation to tax compliance and other accounting services.

Officers of the Company who are former partners of BDO East Coast Partnership

There are no officers of the Company who are former partners of BDO East Coast Partnership.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

Rounding

All values in the Directors' report have been rounded off the dollar (\$) in accordance with Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors



Ted Dhanik
Co-Founder and Executive Chairman

29 March 2019

DECLARATION OF INDEPENDENCE BY JAMES MOONEY TO THE DIRECTORS OF ENGAGE:BDR LIMITED

As lead auditor of engage:BDR Limited for the year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of engage:BDR Limited and the entities it controlled during the period.



James Mooney
Partner

BDO East Coast Partnership

Melbourne, 29 March 2019

engage:BDR Limited**Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2018**

| | Notes | 2018 AUD \$ | 2017 AUD \$ |
|--|-------|---------------------|---------------------|
| Revenue from contracts with customers | 4 | 11,443,935 | 13,135,970 |
| Cost of sales | 6 | (7,117,937) | (6,965,841) |
| Gross profit | | 4,325,998 | 6,170,129 |
| Other income | 7 | 1,599,149 | 258,678 |
| Gain on de-recognition of investment in associate | | - | 2,475,318 |
| Impairment loss on available for sale investment | | - | (1,851,599) |
| Employee and contractor costs | 8 | (5,896,957) | (4,989,741) |
| Operations and administration expense | 9 | (5,491,262) | (5,369,642) |
| Advertising and marketing expense | | (269,667) | (214,831) |
| Finance costs | 12 | (362,681) | (981,538) |
| Other expenses | | (553,490) | (139,308) |
| Share based payment expense | | (284,281) | (3,437,070) |
| Depreciation and amortisation | 10 | (2,615,491) | (2,485,353) |
| Impairment loss | 11 | (1,290,445) | - |
| (Loss) before income tax | | (10,839,127) | (10,564,957) |
| Income tax (expense) | 13 | (1,071) | (1,044) |
| (Loss) after tax from continuing operations | | (10,840,198) | (10,566,001) |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified subsequently to profit or loss</i> | | | |
| Loss on the revaluation of equity instruments at fair value through other comprehensive income, net of tax | | (511,767) | - |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Exchange differences on translation of foreign operations | | (313,039) | 688,310 |
| Total Comprehensive (loss) for the period attributable to the owners | | (11,665,004) | (9,877,691) |
| Loss per share for loss attributable to ordinary equity holders of the Group from: | | | |
| | | 2018 AUD \$ | 2017 AUD \$ |
| Continuing operations: | | | |
| Basic earnings (loss) per share | 29 | (0.04) | (0.07) |
| Diluted earnings (loss) per share | 29 | (0.04) | (0.07) |

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

engage:BDR Limited
Consolidated Statement of Financial Position
As at 31 December 2018

| | Notes | 2018 AUD \$ | 2017 AUD \$ |
|--------------------------------------|-------|--------------------|-------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 14 | 320,276 | 7,274,894 |
| Trade and other receivables | 18 | 2,026,138 | 2,878,438 |
| Prepaid expenses | | 281,831 | 558,789 |
| Related party receivables | 23 | 2,229,032 | 2,277,582 |
| Investments in equity instruments | 24 | 114,314 | 366,838 |
| | | 4,971,591 | 13,356,541 |
| Non-current assets | | | |
| Fixed assets | 15 | 299,497 | 735,405 |
| Intangible assets | 16 | 2,519,265 | 3,973,760 |
| Goodwill | 26 | 1,455,522 | - |
| Investments in equity instruments | 24 | 50,640 | 300,140 |
| | | 4,324,924 | 5,009,305 |
| Total assets | | 9,296,515 | 18,365,846 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 21 | 12,856,467 | 14,157,323 |
| Employee liabilities | 22 | 52,410 | 85,409 |
| Lease liability | 20 | 292,285 | 391,231 |
| Borrowings | | 2,598,440 | 2,753,107 |
| | | 15,799,602 | 17,387,070 |
| Non-current liabilities | | | |
| Trade and other payables | | - | 2,892 |
| Lease liability | 20 | 105,760 | 279,789 |
| | | 105,760 | 282,681 |
| Total liabilities | | 15,905,362 | 17,669,751 |
| Net Assets | | (6,608,847) | 696,095 |
| EQUITY | | | |
| Share capital | 19 | 20,025,656 | 15,665,594 |
| Share based payment reserve | | 3,533,918 | 3,533,918 |
| Equity investment reserve | | (2,363,366) | - |
| Foreign currency translation reserve | | (98,761) | 214,278 |
| Accumulated losses | | (27,706,294) | (18,717,695) |
| Total equity | | (6,608,847) | 696,095 |

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

Consolidated Statement of Changes in Equity
For the year ended 31 December 2018

| | Share Capital AUD \$ | Share based payment reserve AUD \$ | Equity investment reserve AUD \$ | Foreign Currency Translation Reserve AUD \$ | Accumulated Losses AUD \$ | Total AUD \$ |
|--|-------------------------|---|---|---|---------------------------------|--------------------|
| Balance at 01 January 2017 | 1,178 | - | - | (474,032) | (8,151,694) | (8,624,548) |
| Loss after income tax expense for the year | - | - | - | - | (10,566,001) | (10,566,001) |
| Other comprehensive income for the year, net of tax | - | - | - | 688,310 | - | 688,310 |
| Total comprehensive loss for the year | - | - | - | 688,310 | (10,566,001) | (9,877,691) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | |
| Contributions of equity, net of transaction costs (note 19) | 15,664,416 | - | - | - | - | 15,664,416 |
| Share based payment reserves | - | 3,533,918 | - | - | - | 3,533,918 |
| Balance at 31 December 2017 | 15,665,594 | 3,533,918 | - | 214,278 | (18,717,695) | 696,095 |
| Adjustment for change in accounting policy (note 2.1) | - | - | (1,851,599) | - | 1,851,599 | - |
| Balance at 01 January 2018 – restated | 15,665,594 | 3,533,918 | (1,851,599) | 214,278 | (16,866,096) | 696,095 |
| Loss after income tax expense for the year | - | - | - | - | (10,840,198) | (10,840,198) |
| Other comprehensive income for the year, net of tax | - | - | (511,767) | (313,039) | - | (824,806) |
| Total comprehensive loss for the year | - | - | (511,767) | (313,039) | (10,840,198) | (11,665,004) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | |
| Contributions of equity, net of transaction costs (note 19) | 4,360,062 | - | - | - | - | 4,360,062 |
| Balance at 31 December 2018 | 20,025,656 | 3,533,918 | (2,363,366) | (98,761) | (27,706,294) | (6,608,847) |

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

Consolidated Statement of Cash Flows
For the year ended 31 December 2018

| | Notes | 2018 AUD \$ | 2017 AUD \$ |
|--|-------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| (Loss) after tax from continuing operations | | (10,840,198) | (10,566,001) |
| - Finance costs | | 362,681 | 981,538 |
| <i>Adjustments for non-cash income and expenses:</i> | | | |
| - Depreciation | | 527,385 | 523,508 |
| - Amortisation | | 2,088,106 | 1,961,847 |
| - Gain on de-recognition of investment in associate | | - | (2,475,318) |
| - Impairment loss for available for sale investment | | - | 1,851,599 |
| - Impairment expense | | 1,290,445 | |
| - Share based compensation | | 712,205 | 3,437,070 |
| - Re-measurement of payables | | (1,089,706) | - |
| - Interest income not received | | (63,025) | (68,642) |
| - Release of deferred income | | (619,033) | (105,405) |
| - Executive bonuses used to offset shareholder loans | | 679,929 | - |
| <i>Changes in operating assets and liabilities:</i> | | | |
| - (Increase) / Decrease in trade and other receivables | | 852,300 | 3,818,666 |
| - Decrease / (Increase) in prepayments | | 276,958 | (115,845) |
| - Increase / (Decrease) in trade and other payables | | (2,526,628) | 2,397,260 |
| - Increase / (Decrease) in factoring liability | | 115,609 | (2,465,490) |
| Cash (used in) operations | | (8,232,972) | (825,213) |
| Interest paid | | (245,723) | (673,158) |
| Net cash from / (used in) operating activities | | (8,478,695) | (1,498,371) |
| Cash flows from investing activities | | | |
| Purchases of fixed assets | | (42,910) | (872) |
| Capitalised software development | | (405,829) | (909,664) |
| Loans to related parties (shareholders) | | (329,432) | (419,584) |
| Shareholder loan repayments received | | - | 654,552 |
| Acquisition of subsidiary – cash acquired | | 115,120 | - |
| Net cash from/(used in) investing activities | | (663,051) | (675,568) |
| Cash flows from financing activities | | | |
| Proceeds from capital raises | | 2,211,700 | 10,000,000 |
| Cost of capital raise | | (120,000) | (652,000) |
| Proceeds from loans | | 1,035,374 | - |
| Repayment of loans | | (87,138) | - |
| Repayment of finance leases | | (693,846) | (814,974) |
| Net cash from / (used in) financing activities | | 2,346,090 | 8,533,026 |
| Net increase / (decrease) in cash and cash equivalents | | (6,795,656) | 6,359,087 |
| Cash and cash equivalents at beginning of year | | 7,274,894 | 986,603 |
| Effects of currency translation | | (158,962) | (70,796) |
| Cash and cash equivalents at end of year | | 320,276 | 7,274,894 |

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

engage:BDR Limited
Notes to the Financial Statements
For the year ended 31 December 2018

1. Corporate information

The financial report is a general purpose financial report which covers engage:BDR Limited, (the 'parent' or the 'Company') and its 100% owned subsidiaries, engage:BDR LLC, Tiveo LLC ('Tiveo'; a wholly-owned subsidiary of engage:BDR LLC), Mobile Media, and AdCel 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 and EN1O. The financial report is for the year ended 31 December 2018 and is presented in Australian Dollars ('AUD'). All values in the financial report have been rounded off to the nearest dollar (\$) in accordance with Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission.

engage:BDR LLC, Tiveo LLC, and AdCel LLC are entities incorporated in the United States of America.

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

The nature of operations and principal activities of engage:BDR are as an internet-based, for-profit marketplace platform and associated technology solution provider. engage:BDR's proprietary technology is used to optimize the sale of advertising inventory from digital publishers (websites and apps) to advertisers and their agents (brands, agencies, and advertising platforms).

The financial report of engage:BDR Limited and its controlled entities for the year ended 31 December 2018 was authorized for issue in accordance with a resolution of the Directors on 29 March 2019.

(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 through a share sale and purchase agreement, which resulted in engage:BDR Limited becoming the ultimate parent of engage:BDR LLC. engage:BDR Limited was incorporated for the sole purpose of acquiring 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 re-organisation with the establishment of the new parent entity, engage:BDR Limited. Therefore, the principles of business combination accounting and reverse acquisition accounting have not been applied. Instead, the Group is considered to be a continuation of engage:BDR LLC and has been accounted for as such in this financial report.

engage:BDR Limited's consolidated financial statements for the year ended 31 December 2018 and 31 December 2017 are presented as the continuation of engage:BDR LLC operations and business.

(b) Comparatives

Where necessary, comparatives have been reclassified for consistency with the current period disclosures

(i) Revision to Appendix 4E Preliminary Final Report for the year ended 31 December 2018

A portion of the de-recognition of remeasured payables previously included as Other income in the Statement of Profit or Loss did not meet the derecognition criteria. This resulted in a decrease to Other income of \$1,152,813 and increase to Trade and other payables in the Statement of Financial Position of \$1,152,813; an additional \$136,066 was removed from Other income because it did not meet recognition criteria as a remeasured payable. Other significant changes to Trade and other payables were elimination of Trade and other payables owed to AdCel that brought the balance down \$209,276; a liability was recognized for the value of shares owed for the AdCel

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acquisition that were not issued during the period a total of \$1,055,057; and \$70,000 was accrued for BDO's audit services (which affected the Profit or Loss). The remaining \$69,143 is related to exchange differences from the removal of the remeasured payables.

Additional amortisation of capitalised software assets was recognised due to reassessment of some capitalised items to a lesser useful life. This resulted in an increase to Depreciation and amortisation on the Statement of Profit or Loss of \$268,166 with a corresponding decrease to Intangible assets in the Statement of Financial Position. Two capitalised software projects did not meet recognition criteria and were expensed through the Profit or loss increasing Employee and contractor costs by \$179,448

The adoption of AASB 9 was revised and the loss on revaluation of equity instruments at fair value through profit or loss of \$511,767 was reclassified into Other comprehensive income on the Statement of Profit or Loss resulting in the creation of a reserve on the Statement of Financial Position.

In addition to the amortisation mentioned previously, AdCel intangible assets related to Advertising relationships and Trade names/trademarks were removed from the fair value calculation of the business combination. The result was a decrease to Intangible assets of \$1,063,360. This, in part, also required an increase to Goodwill of \$597,861. Other adjustments to Goodwill were the revaluation of the AdCel acquisition to align with the fair value of shares at acquisition date (\$0.099). A payable for the shares not issued during the AdCel acquisition was not previously recognised which required the recognition of a Deferred payable (as part of Trade and other payables) of \$1,055,057.

2. Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

(b) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of engage:BDR Limited as at 31 December 2018 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

(c) Going concern

The financial report has been prepared on a going concern basis, which takes into account the net current liabilities of \$10,828,011, negative operating cash flows of \$8,478,695, net liabilities of \$6,608,847 and an ending cash position of \$320,276 as at 31 December 2018.

During the year ended 31 December 2018, the Group successfully raised a further \$3,239,724, before costs, from a share placement to sophisticated investors and share purchase plan to existing eligible shareholders and a loan note. The funds received are being used to continue the platform integrations in the Group's programmatic business, the further development of the Iconic Reach influencer marketing business and for working capital.

The delay in the listing of the Group in 2017 placed significant constraints on the business in particularly for Q4 FY17, which flowed through into 2018 in terms of cash outflow particularly in Q1 2018 and which adversely impacted on both operating performance and cash flow.

These conditions give rise to a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern.

Notwithstanding the above the Directors consider the going concern basis to be appropriate giving consideration to:

- Confidence in raising capital as needed.
- Confidence in achieving the group's forecast revenues and positive operating cash flow in 2019 through continued completion of planned integrations onto the group's programmatic advertising platform and growth of the Iconic Reach business;
- The ability of the Group to obtain additional debt, equity or hybrid capital raisings in the near term (for which the company has a proven track record having completed three equity raisings in the past 12 months);
- The Group's ability, if required, to seek the support from its founders and major shareholders for the further injection of capital;
- Its ability to exercise control over discretionary operational cash outflows;
- Repayment of some or all of secured related party loan receivables; and
- The expected realisation of Investments in equity instruments to be realised on expiry of escrow restrictions (currently valued at \$164,954).

Accordingly, the accounts have been prepared on a going concern basis.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in ordinary course of business, and at amounts that differ from those stated in the Financial Statements. The financial statements do not include any adjustments related to the recoverability and classification of recorded assets amounts or to the amounts and classification of liabilities that might be necessarily incurred should the consolidated entity not continue as a going concern.

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(d) Segment reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision makers, who provide the strategic direction and management oversight of the Group in terms of monitoring results and approving strategic planning for the business.

The Group has assessed its operations to comprise of two reportable segments – being programmatic and non-programmatic trading. However, due to the similar nature and characteristics of these operations, and the fact that they are reported together to the chief operating decision maker (with the only distinction made upon reporting being the split in revenue by programmatic and non-programmatic) they have been combined and shown together. Refer Note 5 for the segmental analysis.

(e) Foreign currencies

(i) Functional and presentation currency

The functional currency of each of the entities in the Group is the currency of the primary economic environment in which each of the entities operate, which is US Dollars ('USD') for engage:BDR LLC, Tiveo, Mobile Media and AdCel LLC. The financial report is presented in Australian Dollars ('AUD') which is the functional currency of the Parent, engage:BDR Limited and presentation currency of the Group.

(ii) Transactions and balances

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

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

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

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

(iii) Translation

The assets and liabilities of subsidiaries with a functional currency other than AUD (being the presentation currency of the Group) are translated into AUD at the exchange rate at the reporting date and the statement of comprehensive income is translated at the average exchange rate for the period. On consolidation, exchange differences arising from the translation of these subsidiaries are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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(f) 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

The Group is an internet-based marketplace platform and associated technology solution provider. The Group'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 Group's OutStream advertising unit, which allows publishers to sell space for video advertising on webpages that do not have video content.

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group:

- Identifies the contract with a customer
- Identifies the performance obligations in the contract
- Determines the transaction price
- Allocates the transaction price to the separate performance obligations
- Recognises revenue when the performance obligation is satisfied in a manner that depicts the transfer to the customer of the services provided.

All contracts with customers are standardised and satisfy the criteria of transaction approval, identification of each party's rights, payment terms, commercial substance, and probable collection based on the customer's ability and intention to pay. There are no material contracts with customers where there are multiple goods or services promised in which they are distinct and separable in both context and considering other readily available resources. The Group does not offer variable pricing, no significant financing portion, no non-cash consideration, no return rights, and no material lag between collection of monies and delivery of service. The Group does not offer bundled pricing on services provided separately where delivery and settlement is not consistent. The Group does not offer customized goods, receive refundable upfront fees, nor have arrangements where performance obligations are settled over an extended period of time rather than a point in time.

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 provides advertisers and their agents to purchase and place advertising inventory on publishers' sites. The Group's performance obligation is facilitating the sale of advertising space and ensuring its placement on the website. The proprietary technology developed and used by the Group counts all bid attempts, tracks the winning bids, and ensures the delivery of the advertisement. All of these data points are used to ensure proper satisfaction of performance obligations. The Group reports the sales of advertising revenues for advertising inventory on a gross basis, that is, the amounts they expect to be entitled to. Amounts paid to suppliers are recorded as cost of sales. Where we are the principal, the Group controls the advertising inventory before it is transferred to its customers. Control is evidenced by the Group's sole ability to monetise the advertising inventory before it is transferred to its customers, and is further supported by the Group being primarily responsible to its customers and having a level of discretion in establishing pricing.

The Group recognises contract liabilities for consideration received in advance of services provided. Where a customer prepays any portion of a contract, the Group records such prepayments as trade and other payables in the statement of financial position. Prepayments are paid for approximately one month of contract cost in advance, with specific insertion orders allocated to a prepaid amount. These sums will not be recognised as revenue until all obligations pursuant to that insertion order contract have been fulfilled by the Group and approved by the counterparty. The amounts received upfront are not refundable. Revenue for prepayments is recognised only after all performance obligations related to the contract with customers is satisfied.

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(ii) Interest revenue

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.

(g) Income tax

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset where there is or would be a legal right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a

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net basis, or to realise the assets and settle the liabilities simultaneously in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

(h) Fixed assets

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

Depreciation

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

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

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

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

| Class of Fixed Assets | Useful life |
|---|--------------------|
| Leasehold Improvements & Computer equipment | 2-3 years |
| Furniture and fittings | 2-6 years |

(i) Intangible assets

Capitalised development costs

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

Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3-10 years.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

(j) Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(k) Financial assets

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify as such upon initial recognition.

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

As at 31 December 2018, the Group had an investment in equity instruments which was Lottogopher Holdings Inc. See note 24 for accounting treatment during the period.

(l) Cash and cash equivalents

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

(m) Financial liabilities

(i) Classification

Financial liabilities within the scope of AASB 9 are classified as financial liabilities at FVTPL or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

(ii) Initial recognition and measurement

All financial liabilities are recognised initially at fair value net of transaction costs.

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(iii) Subsequent measurement

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

Derivative financial instruments

Derivatives are initially recognised at fair value and are subsequently measured to their fair value at each Statement of Financial Position date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Further details of derivative financial instruments are disclosed in note 28.

Embedded derivatives

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

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

Interest bearing loans and borrowings

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

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised in profit or loss respectively in finance revenue and finance cost. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as transaction costs of the loan to the extent that it is probable that some or all the facility will be drawn down.

De-recognition of financial liabilities

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

(n) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is

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a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 17.

(o) Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

(p) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

(q) Trade and other payables

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

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(r) Employee benefits

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

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

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

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

(ii) Defined contribution schemes

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

(s) Leases

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

(i) Finance leases

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

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

(ii) Rentals and operating leases

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

(t) Provisions

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

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(u) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

(v) Share-Based Payments

The Group provides benefits to employees in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares. The Group has issued shares to directors and employees for the year ended 31 December 2018 as compensation and has issued shares to a third parties in lieu of services provided to support the Group's Initial Public Offer. These shares were issued in engage:BDR LLC and converted to shares in engage:BDR Limited upon listing on the ASX.

The cost of share-based payments is measured by reference to the fair value of options at the date at which they are granted. The fair value of options granted is determined by using the Monte Carlo simulation or the binomial option valuation model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 30.

For employee related share based payments, the fair value of options is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employee becomes conditionally entitled to the option.

For third party share based payments, the fair value of options is recognised as being a deduction from the initial public offering proceeds raised, with a corresponding increase in equity.

(w) Earnings Per Share (EPS)

Basic EPS

Basic earnings per share is calculated by dividing the profit attributable to the owners of engage:BDR Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted EPS

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

As the Group incurred a loss for the period under review and in the prior year, potential ordinary shares, being options and performance rights to acquire ordinary shares, are considered non-dilutive and therefore not included in the diluted earnings per share calculation.

2.1 New standards, interpretations and amendments adopted by the Group

(a) AASB 15 Revenue from Contracts with customers

The Group has adopted AASB 15 from 1 January 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

(b) AASB 9 Financial Instruments

The consolidated entity has adopted AASB 9 from 1 January 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

(c) Impact of adoption

AASB 9 and AASB 15 were adopted using the modified retrospective approach and as such, comparatives have not been restated. The consolidated entity has applied the simplified approach to measuring expected credit losses under AASB 9, resulting in no additional expense for the year ended 31 December 2018. The application of applying AASB 15 has not resulted in any material changes in the current reporting period.

The impact of the new Accounting Standards compared with the previous Accounting Standards on the current reporting period is as follows:

| EXTRACT | Previous | Adjustment | New |
|--|-----------|------------|-----------|
| Loss on revaluation available for sale investment to fair value | (511,767) | 511,767 | - |
| Loss on the revaluation of equity instruments at fair value through other comprehensive income | - | (511,767) | (511,767) |

2.2 New standards and interpretations not yet mandatory or early adopted

(a) AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the least term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings before Interest, Tax, Depreciation, and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 January 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

3. Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

(i) Development costs – capitalisation, valuation and impairment

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

Capitalised development costs have a finite useful life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project, typically between 3 and 10 years, and are considered for impairment, based on the presence of indicators, at each reporting date.

After capitalisation, the Group assesses, on an annual basis, whether there is an indication that capitalised costs may be impaired. If any indication exists, the Group estimates the asset's recoverable amount, which is the higher of the asset's or cash generating unit ('CGU')'s fair value less cost of disposal and its value in use. The Group assesses that each capitalised intangible asset, representing each software project, does not generate cash inflows that are largely independent of those from other assets so has determined the recoverable amount at CGU level. The CGU to which the intangible assets are allocated has been identified as the Group as a whole.

The recoverable amount of the capitalized costs have been determined based on its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Future cash flows are estimated based on detailed budgets and forecast

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calculations. These budgets and forecast calculations generally cover a period of 3 years and a long-term growth rate is calculated and applied to project future cash flows after the 3rd year.

When performing this assessment for the year ended 31 December 2017 the Group has used the value in use calculation prepared in connection with the share based payments transaction (as of August 2017) and applied updated assumptions around revenue, growth and cost projections which reflect the forecast business results now that the Group has successfully listed on the ASX. In relation to the acquired Tiveo intangibles, the Group has also considered the value in use calculation prepared at the time of the acquisition (August 2016) which supported the cost value of the acquired assets. Since this date, investment in these assets has been delayed and not yet commenced (due to the delay in successfully listing on the ASX) and as such the Group has considered the value in use calculation prepared at this date to still provide evidence supporting the carrying value of these intangibles, which have been amortised since the date of acquisition.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount as impairment loss. The carrying amount of intangible assets at the reporting date was \$2,496,784 (2017: \$3,973,760) and there was impairment losses of \$1,290,445 (2017: nil) recognised during the current financial year.

(ii) Recoverability of debtors

The determination of the recoverability of trade debtors requires the Directors to exercise their judgement. In reviewing trade debtors, the Group considers any recent history of payments and the status of the projects to which the debt relates. No payment terms have been renegotiated. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further provision required in excess of the allowance for impairment. Refer to note 17 for additional detail.

(iii) Goodwill

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

(iv) Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

(v) Business combinations

As discussed in note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

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4. Revenue

| | 2018 AUD \$ | 2017 AUD \$ |
|---|-----------------------|-----------------------|
| Revenue from contracts with customers – Rendering of services | 11,443,935 | 13,135,970 |
| Revenue from continuing operations | 11,443,935 | 13,135,970 |

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

| | 2018 AUD \$ | 2017 AUD \$ |
|------------------|-----------------------|-----------------------|
| Programmatic | 9,899,458 | 8,930,576 |
| Non-programmatic | 1,544,477 | 4,205,394 |
| | 11,443,935 | 13,135,970 |

Geographical regions

| | 2018 AUD \$ | 2017 AUD \$ |
|--------------------------|-----------------------|-----------------------|
| Australia | 365 | 6,196 |
| United States of America | 10,640,639 | 11,773,654 |
| Other | 802,931 | 1,356,120 |
| | 11,443,935 | 13,135,970 |

Timing of revenue recognition

| | 2018 AUD \$ | 2017 AUD \$ |
|--------------------------------------|-----------------------|-----------------------|
| Services rendered at a point in time | 11,443,935 | 13,135,970 |

5. Segmental Analysis

| Product Information | Programmatic | Non-programmatic | Consolidated |
|------------------------------------|---------------------|-------------------------|---------------------|
| Year ended 31 December 2018 | AUD \$ | AUD \$ | AUD \$ |
| Revenue from external customers | 9,899,458 | 1,544,477 | 11,443,935 |

| Product Information | Programmatic | Non-programmatic | Consolidated |
|------------------------------------|---------------------|-------------------------|---------------------|
| Year ended 31 December 2017 | AUD \$ | AUD \$ | AUD \$ |
| Revenue from external customers | 8,930,576 | 4,205,394 | 13,135,970 |

| Geographic Information | 2018 AUD \$ | 2017 AUD \$ |
|-------------------------------|-----------------------|-----------------------|
| Australia | 365 | 6,196 |
| United States of America | 10,640,639 | 11,773,654 |
| Other ^[1] | 802,931 | 1,356,120 |
| | 11,443,935 | 13,135,970 |

^[1] No other single country represents greater than 10% of the Group's total revenue.

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Major Customers

Below is a summary of revenues from major customers where the transactions with each individual customer exceed 10% or more of the Group's total revenue.

| Customer and segment | 2018 | 2017 |
|--|-------------|-------------|
| | AUD \$ | AUD \$ |
| Customer A – Programmatic | 8,959,984 | 5,752,219 |
| Customer B – Programmatic & Non-Programmatic | - | 1,372,799 |

6. Cost of sales

| | 2018 | 2017 |
|--------------------------------------|------------------|------------------|
| | AUD \$ | AUD \$ |
| Online media costs | 7,115,049 | 6,916,723 |
| Platform service fees ^[1] | - | 46,785 |
| Merchant banking fees | 2,888 | 2,333 |
| Total cost of sales | 7,117,937 | 6,965,841 |

^[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.

7. Gain on de-recognition of investment in associate and other income

| | 2018 | 2017 |
|--|------------------|----------------|
| | AUD \$ | AUD \$ |
| Gain on de-recognition of investment in associate | - | 2,475,318 |
| Impairment loss for equity investment in associate | - | (1,851,599) |
| Net fair value gain from equity investment in associate^[1] | - | 623,719 |
| Finance income | 66,605 | 68,667 |
| Re-measurement of payables ^[2] | 866,351 | - |
| Release of deferred income on forfeiture ^[3] | 619,033 | - |
| Embedded derivative fair value movement | - | 140,808 |
| Other income | 47,160 | 49,203 |
| Total other income | 1,599,149 | 258,678 |

^[1] During the half-year ended 30 June 2017, the group recognised a gain of \$2,475,318 as other income related to the de-recognition of its previous investment in an associate upon the recognition of equity instruments held in Lottogopher Holdings Inc., an entity which was publicly listed in May 2017 on the Canadian Stock Exchange. The Group previously held an equity investment in the trading operations of an associated entity of Lottogopher Holdings Inc., which was accounted for using the equity method due to having significant influence over the entity. On completion of the Initial Public Offering in May 2017, the investment held was converted into equity shares of Lottogopher on the Canadian Stock Exchange, with the gain of \$2,475,318 representing the fair value re-measurement of the previous equity accounted investment on receipt of equity by the Group. Galaxy ceased to be an associate, as the Group's shareholding reduced from 23% to 6% as a result of the above described transaction, and instead traded as an AFS investment. Effective from 1 January 2018, the Group elected for the gain/loss on the revaluation of equity instruments at fair value to go through other comprehensive income.

^[2] Per Group policy, payables are remeasured on a regular basis to adjust for invalid traffic.

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^[3] In accordance with the Advertiser Service Agreement, balances that satisfy the following criteria are considered forfeited and eligible for recognition as other income: Balances older than 6 months; Likelihood of near-future business (6 months) Bankruptcies, mergers, closures, and assessment of those less than a year old.

8. Employee and contractor costs

| | 2018 | 2017 |
|---|------------------|------------------|
| | AUD \$ | AUD \$ |
| Salary costs | 5,609,135 | 4,701,903 |
| Defined contribution plan (401(k)) | 39,054 | 46,195 |
| Insurance costs (medical and worker's compensation) | 248,768 | 241,643 |
| Total employee and contractor costs | 5,896,957 | 4,989,741 |

9. Operations and administration expense

| | 2018 | 2017 |
|--|------------------|------------------|
| | AUD \$ | AUD \$ |
| Technology infrastructure and software costs | 1,049,672 | 1,701,570 |
| Legal and accounting expense | 1,105,685 | 1,130,147 |
| Technical and corporate development expense | 656,921 | 206,211 |
| Bad debt expense | 461,063 | 698,741 |
| Travel expenses | 648,799 | 277,925 |
| Office and other rental expenditure | 565,261 | 802,733 |
| Human resource expenses | 100,082 | 88,393 |
| Municipal and other taxes | 150,337 | 21,098 |
| Insurance expense | 479,807 | 139,425 |
| Other operations and administration expenses | 273,635 | 303,399 |
| Total operations and administration | 5,491,262 | 5,369,642 |

10. Depreciation and amortisation

| | 2018 | 2017 |
|--|------------------|------------------|
| | AUD \$ | AUD \$ |
| Depreciation of property, plant, and equipment | 527,385 | 523,506 |
| Amortisation of capitalised software development costs | 2,088,106 | 1,961,847 |
| Total depreciation and amortisation | 2,615,491 | 2,485,353 |

11. Impairment expense

| | 2018 | 2017 |
|--|------------------|-------------|
| | AUD \$ | AUD \$ |
| Impairment of MyDiveo Developed Technology and Non-Compete Clause ^[1] | 1,290,445 | - |
| Total Impairment Loss | 1,290,445 | - |

^[1] At the half year, the Group completed a full review of its business and its operating model in the context of actual results not reflecting the previous market guidance issued. As part of this process, it was determined that based upon the performance of the MyDiveo software asset in the period that an indicator of impairment was recognised and an impairment loss of \$1,290,784 was recorded against the carrying value of the relevant development costs and non-compete clause bringing the asset value to \$nil.

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12. Finance costs

| | 2018 | 2017 |
|---|----------------|----------------|
| | AUD \$ | AUD \$ |
| Interest on financing arrangements ^[1] | 65,393 | 278,544 |
| Interest on finance leases | 89,416 | 242,956 |
| Interest on credit line ^[2] | 179,976 | 383,036 |
| Interest on loan from related party | 2,526 | - |
| Interest on corporate credit cards | 25,370 | 77,002 |
| Total finance costs | 362,681 | 981,538 |

^[1] The Group issued a promissory note to a supplier with a simple interest rate of 7% per annum and maturity date in January 2018, currently outstanding and being paid down per the terms of the promissory note. Also included is interest payable to investors that were issued convertible notes.

^[2] The Group uses an Asset-based lending (ABL) credit line. The ABL involves the transfer of receivables without derecognition. See note 18a for further detail on the transfer of receivables.

13. Income tax expense

| | 2018 | 2017 |
|--|--------------|--------------|
| | AUD \$ | AUD \$ |
| Current income tax | | |
| Current income tax | 1,071 | 1,044 |
| Adjustments in respect of current income tax of previous year | - | - |
| Deferred income tax | | |
| Relating to origination and reversal of temporary differences | - | - |
| Total income tax expense / (benefit) in the statement of comprehensive income | 1,071 | 1,044 |

A reconciliation between income tax expense and the product of accounting profit multiplied by the U.S. domestic statutory tax rate for the years ended 31 December 2018 and 2017 is as follows:

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Accounting loss before income tax | (10,839,127) | (10,564,957) |
| Taxes computed at statutory rate of 0% ^[1] | - | - |
| Increase/(decrease) in income taxes resulting from: | - | - |
| State and local taxes ^[1] | 1,071 | 1,044 |
| Provision/(benefit) for income taxes | 1,071 | 1,044 |

Deferred tax relates to the following temporary differences:

Deferred tax assets:

| | 2018 ^[2] | 2017 |
|---|----------------------------|-------------|
| Accrued expenses and reserves | - | 1,856 |
| Losses available for offsetting against future taxable income | - | 247,886 |
| Research and development credits | - | 302,970 |
| | - | 552,712 |

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

Deferred tax liabilities

| | | |
|--|---|----------|
| Accelerated depreciation and amortisation for tax purposes | - | (57,079) |
| | - | (44,598) |

Reconciliation of recognised deferred tax

| | | |
|------------------------------------|---|-----------|
| Deferred tax asset | - | 552,712 |
| Deferred tax assets not recognised | - | (495,633) |
| | - | 57,079 |
| Deferred tax liability | - | (57,079) |
| Net deferred tax | - | - |

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

^[2] As a foreign owned LLC, engage:BDR LLC is no longer eligible for deferred tax assets. 2018 was the first full period in which engage:BDR LLC is considered foreign owned.

14. Cash and cash equivalents

| | 2018 | 2017 |
|--------------------------|-------------|-------------|
| | AUD \$ | AUD \$ |
| Cash at bank and in hand | 320,276 | 7,274,894 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. Cash and Cash Equivalents are denominated in:

| | 2018 | 2017 |
|--------------------|-------------|-------------|
| Australian dollars | 861 | 282,768 |
| US dollars | 225,053 | 5,463,669 |

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15. Fixed assets

| | Leasehold Improvement & Computer Equipment | Furniture & Fittings | Total |
|---------------------------------|---|---------------------------------|----------------|
| | 2018 | 2018 | 2018 |
| Cost | AUD \$ | AUD \$ | AUD \$ |
| At 01 January 2018 | 2,658,488 | 202,644 | 2,861,132 |
| Additions | 42,910 | - | 42,910 |
| Exchange difference | 289,917 | 22,099 | 312,016 |
| At 31 December 2018 | 2,991,315 | 224,743 | 3,216,058 |
| Accumulated depreciation | | | |
| At 01 January 2018 | 1,975,536 | 150,191 | 2,125,727 |
| Depreciation for the year | 502,545 | 24,840 | 527,385 |
| Exchange difference | 245,580 | 17,869 | 263,449 |
| At 31 December 2018 | 2,723,661 | 192,900 | 2,916,561 |
| | 2017 | 2017 | 2017 |
| Cost | AUD \$ | AUD \$ | AUD \$ |
| At 01 January 2017 | 2,883,722 | 219,883 | 3,103,605 |
| Additions | 872 | - | 872 |
| Exchange difference | (226,106) | (17,239) | (243,345) |
| At 31 December 2017 | 2,658,488 | 202,644 | 2,861,132 |
| Accumulated depreciation | | | |
| At 01 January 2017 | 1,618,392 | 131,096 | 1,749,488 |
| Depreciation for the year | 493,555 | 29,951 | 523,506 |
| Exchange difference | (136,411) | (10,856) | (147,267) |
| At 31 December 2017 | 1,975,536 | 150,191 | 2,125,727 |
| Carrying Amount | | | |
| At 31 December 2018 | 267,654 | 31,843 | 299,497 |
| At 31 December 2017 | 682,952 | 52,453 | 735,405 |

The carrying amount of the Group's fixed assets includes an amount of \$197,521 (2017: \$636,399) in respect of assets held under finance leases.

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16. Intangible assets

| | Software development costs 2018 AUD \$ | Non-competes clause 2018 AUD \$ | Total 2018 AUD \$ |
|--|---|--|----------------------------------|
| Cost | | | |
| At 01 January | 6,521,346 | 793,433 | 7,314,779 |
| Additions | 585,277 | - | 585,277 |
| Additions from business combination | 1,191,694 | - | 1,191,694 |
| De-recognition of ineligible projects | (179,448) | - | (179,448) |
| Impairment loss | (2,647,751) | (793,433) | (3,441,184) |
| Exchange difference | 687,126 | - | 687,126 |
| At period end | 6,158,244 | - | 6,158,244 |
| Accumulated amortization | | | |
| At 01 January | 2,977,363 | 363,656 | 3,341,019 |
| Amortisation for the year | 1,926,068 | 138,360 | 2,064,428 |
| Additions from business combination | 49,654 | - | 49,654 |
| De-recognition of ineligible projects | (25,978) | - | (25,978) |
| Accumulated amortisation related to impaired asset | (1,648,722) | (502,016) | (2,150,738) |
| Exchange difference | 360,594 | - | 360,594 |
| At period end | 3,638,979 | - | 3,638,979 |
| Carrying amount | 2,519,265 | - | 2,519,265 |
| | 2017 AUD \$ | 2017 AUD \$ | 2017 AUD \$ |
| Cost | | | |
| At 01 January | 6,108,131 | 860,932 | 6,969,063 |
| Additions | 909,663 | - | 909,663 |
| Exchange difference | (496,448) | (67,499) | (563,947) |
| At period end | 6,521,346 | 793,433 | 7,314,779 |
| Accumulated amortization | | | |
| At 01 January | 1,429,973 | 107,616 | 1,537,589 |
| Amortisation for the year | 1,692,164 | 269,683 | 1,961,847 |
| Exchange difference | (144,774) | (13,643) | (158,417) |
| At period end | 2,977,363 | 363,656 | 3,341,019 |
| Carrying amount | 3,543,983 | 429,777 | 3,973,760 |

Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefit and these benefits can be measured reliably. The development costs have finite useful lives typically between 3 - 10 years, with a weighted average of 4 years (2017: 3 years). Impairment of capitalized software costs is considered at each reporting period. At the year end, the Group completed a full review of its business and its operating model in the context of actual results not reflecting the previous market guidance issued. As part of this process, it was determined that based upon the performance of the myDiveo

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software asset in the period that an indicator of impairment was recognised and an impairment loss provision of \$1,290,445 was recorded against the carrying value of the relevant development costs and non-compete clause, bringing the asset value to \$nil. The review of the business did not identify any impairment of any remaining intangible assets following consideration of indicators of impairment under AASB 136. As at the year ended 31 December 2018, the remaining intangible assets were determined to be deriving positive cash flows related to the identifiable intangible assets and will continue to be amortised in accordance with the group accounting policy.

17. Financial risk management

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

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

The Group holds the following financial instruments:

| | 2018 | 2017 |
|--|-------------------|-------------------|
| | AUD \$ | AUD \$ |
| Financial assets | | |
| Cash and cash equivalents | 320,276 | 7,274,894 |
| Trade and other receivables | 2,026,441 | 2,878,438 |
| Related party receivables | 2,637,326 | 2,277,582 |
| Investments in equity instruments | 114,314 | 666,978 |
| Total | 5,098,357 | 13,097,892 |
| Financial liabilities | | |
| Trade and other payables – current | 10,305,181 | 13,155,767 |
| Credit card liabilities | 441,173 | 1,001,556 |
| Current portion of lease liability | 292,285 | 391,231 |
| Trade and other payables – non-current | - | 2,892 |
| Non-current portion of lease liability | 105,760 | 279,789 |
| Borrowings – due to factor – current | 1,048,731 | 1,164,340 |
| Borrowings – current | 1,549,708 | 1,588,767 |
| Deferred payable ^[1] | 1,055,057 | - |
| Total | 14,797,895 | 17,584,342 |

^[1] Deferred payable represents shares owed on acquisition of AdCel (11,071,951 shares were issued with 10,657,140 shares outstanding at year end recorded at \$0.099 per share). The 10,657,140 shares were issued on 08 March 2019 at \$0.019 per share.

(a) Credit risk

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

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

The Group's exposure to credit risk is managed through its credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, bank references, and as well as reviewing third party business references of the applicant.

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

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

Generally, trade receivables are written off where there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, failure to communicate with the Group, and no meaningful negotiations as a result of legal action.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and ensuring that all term deposits can be converted to funds in accordance with forecast cash usage. Due to the dynamic nature of the underlying business, flexibility in funding is maintained by ensuring ready access to the cash reserves of the business.

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

(i) Financial arrangements

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

| | Drawn | | Undrawn | | Total | |
|-------------------|------------------------|--------------------------|--------------------------|------------------------------|--------------------------|--------------------------|
| | 2018 AUD \$ | 2017 AUD \$ | 2018 AUD \$ | 2017 AUD \$ | 2018 AUD \$ | 2017 AUD \$ |
| Fixed rate | | | | | | |
| Loan notes | 880,938 ^[4] | - | 1,064,468 | - | 1,945,406 | - |
| Promissory notes | - | 1,045,716 ^[1] | - | - | - | 1,045,716 ^[1] |
| Convertible notes | - | 543,051 ^[2] | 4,798,991 ^[3] | 4,798,991 ^{[2] [3]} | 4,798,991 ^[3] | 5,342,042 ^[2] |
| Total | 880,938 | 1,588,767 | 5,863,459 | 4,798,991 | 6,744,397 | 6,387,758 |

^[1] Promissory note borrowings were issued between October and December 2016 with a maturity of 18 to 24 months. Interest is calculated at a simple interest rate of 7% and 12% (depending on the note terms).

^[2] Convertible note borrowings were drawn down between June and August 2016 with a maturity of 18 to 24 months. Interest is calculated at a simple interest rate of 7% per annum payable at maturity date. Face value of drawn portion is US\$385,000 (AU\$492,696). Face value of drawn funds and accumulated interest payable was converted and issued shares on 27 February 2018.

^[3] Undrawn portion of these convertible notes are funded at the approval of the lender. Total undrawn amount is US\$3,750,000 (AU\$4,798,991). The convertible note expires 18 November 2019.

^[4] Loan notes were issued on 20 November 2018. On 29 January 2019, a resolution was passed during a shareholder general meeting to issue convertible securities in replacement of the Loan notes. The loaned amounts are repayable each month over a 12 month period.

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(ii) Maturities of financial liabilities

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

| | Less than 6 months | Between 6 to 12 months | Between 1 and 2 years | Between 2 and 3 years | Total contractual cash flows |
|--|---------------------------|-------------------------------|------------------------------|------------------------------|-------------------------------------|
| 2018 | AUD \$ | AUD \$ | AUD \$ | AUD \$ | AUD \$ |
| Trade and other payables | 11,357,346 | 2,892 | - | - | 11,360,238 |
| Credit card liabilities | 441,173 | - | - | - | 441,173 |
| Borrowings – Due to factor | 1,048,731 | - | - | - | 1,048,731 |
| Borrowings (principal) – Promissory notes ^[1] | 668,770 | - | - | - | 668,770 |
| Loan notes ^[3] | 880,938 | - | - | - | 880,938 |
| Deferred payable ^[4] | 1,055,057 | - | - | - | 1,055,057 |
| Total financial liabilities | 15,452,015 | 2,892 | - | - | 15,454,907 |

| | Less than 6 months | Between 6 to 12 months | Between 1 and 2 years | Between 2 and 3 years | Total contractual cash flows |
|---|---------------------------|-------------------------------|------------------------------|------------------------------|-------------------------------------|
| 2017 | AUD \$ | AUD \$ | AUD \$ | AUD \$ | AUD \$ |
| Trade and other payables | 13,155,767 | - | 2,892 | - | 13,158,659 |
| Credit card liability | 1,001,556 | - | - | - | 1,001,556 |
| Borrowings – Due to factor | 1,164,340 | - | - | - | 1,164,340 |
| Borrowings (principal) – Promissory notes ^[1] | 88,771 | 956,945 | - | - | 1,045,716 |
| Borrowings (principal) – Convertible notes ^[2] | 543,051 | - | - | - | 543,051 |
| Total financial liabilities | 15,953,485 | 956,945 | 2,892 | - | 16,913,322 |

^[1] Promissory notes to suppliers total \$516,617 (2017: \$1,045,716) all with a simple interest rate of 7% per annum paid monthly.

^[2] Convertible note borrowings start between June and August 2016 with a maturity of 18 to 24 months. Interest is calculated at a simple interest rate of 7.0% per annum payable at maturity date. Amounts shown in the table above for 2017 represents the convertible note borrowing.

^[3] Loan notes were issued on 20 November 2018. On 29 January 2019, a resolution was passed during a shareholder general meeting to issue convertible securities in replacement of the Loan notes. The loaned amounts are repayable each month over a 12 month period.

^[4] Deferred payable represents shares owed on acquisition of AdCel (11,071,951 shares were issued with 10,657,140 shares outstanding at year end). The 10,657,140 shares were issued on 08 March 2019 at \$0.019 per share.

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(iii) Fair values

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

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

| | 2018 | | 2017 | |
|------------------------------|------------------|------------------|------------------|------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | AUD \$ | AUD \$ | AUD \$ | AUD \$ |
| Financial liabilities | | | | |
| Promissory notes | 668,770 | 668,770 | 1,045,716 | 992,049 |
| Convertible Notes | - | - | 543,051 | 451,011 |
| Loan notes | 880,938 | 880,938 | - | - |
| Lease liability | 398,046 | 379,377 | 717,558 | 671,020 |
| Total | 1,947,754 | 1,929,085 | 2,306,325 | 2,204,080 |

(c) Capital management strategy

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

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

The Group is not subject to externally imposed capital requirements.

(d) Interest rate risk

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

(e) Foreign currency risk

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

| Foreign currency sensitivity | Change in USD Rate | Effect on net loss after tax | Effect on net assets/liabilities |
|------------------------------|--------------------|------------------------------|----------------------------------|
| | | AUD \$ | AUD \$ |
| 2018 | +5% | 445,250 | 445,250 |
| | -5% | (445,252) | (445,252) |
| 2017 | +5% | 507,430 | 407,006 |
| | -5% | (507,430) | (407,006) |

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18. Trade and other receivables

| | 2018 | 2017 |
|------------------------------|-------------|-------------|
| | AUD \$ | AUD \$ |
| Trade debtors ^[1] | 2,026,138 | 2,878,438 |

^[1] During the period, the group entered into an arrangement with a third party to provide an asset backed credit line against trade receivables which are up to 180 days old. Under this arrangement, advances are recorded against certain receivables balances which are factored under the facility. All amounts invoiced are in US Dollars. In accordance with AASB 9 Financial Instruments: Recognition and Measurement, an evaluation is performed to establish whether, substantially, all the risks and rewards have been transferred to the factoring provider. Where the Group concludes this is not the case, the portion of the financial assets corresponding to the Group's continuous involvement continues to be recognised. When all the risk and rewards are not considered to be transferred, the amount is kept on the balance sheet. Based upon management's assessment, the Group believes that it has retained risk and rewards, and therefore has not derecognized any financial assets.

(a) Transfer of trade receivables

The Group has retained the credit risk associated with the trade receivables, due to the obligation to repurchase from the factoring company any receivables that are deemed uncollectible, and therefore the risks and rewards of the asset reside with the Group. The total carrying amount (which is approximate to fair value) of the trade receivables transferred subject to factoring arrangement is \$1,048,731 (December 2017: \$1,164,340). This arrangement has no expiration date with an interest rate of 8.25%.

| | 2018 | 2017 |
|--|-------------|-------------|
| | AUD \$ | AUD \$ |
| Carrying amount of trade receivables transferred | 1,048,731 | 1,164,340 |

(b) Current receivables

| Current: | 2018 | 2017 |
|--|------------------|------------------|
| | AUD \$ | AUD \$ |
| Trade debtors | 2,387,919 | 3,151,117 |
| Less: Allowance for expected credit losses | (489,173) | (340,655) |
| Net trade debtors | 1,898,746 | 2,810,462 |
| Other receivables | 127,392 | 67,976 |
| Total current receivables | 2,026,138 | 2,878,438 |

(c) Ageing of past due but not impaired

| | Expected credit loss rate | | Carrying amount | | Allowance for expected credit loss | |
|--------------|---------------------------|------|------------------|------------------|------------------------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | % | % | AUD \$ | AUD \$ | AUD \$ | AUD \$ |
| Not overdue | 1% | 1% | 1,532,827 | 2,028,912 | 15,329 | 20,289 |
| 0 – 30 days | 5% | 5% | 82,235 | 319,122 | 4,112 | 16,387 |
| 31 – 60 days | 15% | 11% | 41,950 | 236,108 | 6,494 | 25,972 |
| 61 – 90 days | 40% | 30% | 49,365 | 27,401 | 19,943 | 8,220 |
| Over 91 days | 65% | 50% | 681,542 | 539,574 | 443,295 | 269,787 |
| | | | 2,387,919 | 3,151,117 | 489,173 | 340,655 |

The average age of the Group's trade receivables is 173 days (2017: 134 days).

In determining the recoverability of a trade receivable, the Group considers any recent history of payments and the status of the projects to which the debt relates. No payment terms have been renegotiated. The concentration of credit risk is limited due to the

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customer based being large and unrelated. Accordingly, the Directors believe that there is no further provision required in excess of the provision for doubtful debts.

(d) Movement in the allowance for expected credit losses

| | 2018 | 2017 |
|---------------------------------------|------------------|------------------|
| | AUD \$ | AUD \$ |
| Balance at beginning of year | (340,655) | (225,752) |
| Impairment recognized during the year | (461,063) | (387,061) |
| Amounts written off as uncollectible | 355,996 | 251,849 |
| Exchange difference | (43,451) | 20,309 |
| Balance at the end of the year | (489,173) | (340,655) |

(e) Fair value of receivables

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

19. Share capital and reserves

| | 2018 | 2017 |
|-------------------------------|-------------|-------------|
| | AUD \$ | AUD \$ |
| At 01 January | 15,665,594 | 1,178 |
| Shares issued during the year | 4,360,062 | 15,664,416 |
| At period end | 20,025,656 | 15,665,594 |

| | 2018 | 2017 | 2018 | 2017 |
|---|-------------|-------------|-------------|-------------|
| | # shares | # shares | AUD \$ | AUD \$ |
| <i>Issued shares</i> | | | | |
| Balance at 01 January | 249,699,958 | 108,550,000 | 15,665,594 | 1,178 |
| Acquisition | - | 100 | - | - |
| Shares issued to employees in engage:BDR LLC | - | 24,583,239 | - | - |
| Shares issued on completion of the IPO in engage:BDR Limited | - | 50,000,000 | - | 8,725,841 |
| Share conversion on acquisition of engage:BDR LLC | - | 66,566,619 | - | 6,938,575 |
| Shares issued to convertible note holders – principal and interest ^[1] | 2,745,721 | - | 431,612 | - |
| Shares issued to convertible note holders – additional ^[1] | 484,539 | - | 124,882 | - |
| Shares issued during capital raise, net of fees ^[2] | 12,500,000 | - | 1,880,000 | - |
| Shares issued for consulting fees | 2,250,000 | - | 360,000 | - |
| Shares issued during Share Purchase Plan ^[3] | 1,294,375 | - | 204,350 | - |
| Shares issued in relation to AdCel acquisition ^[4] | 11,071,951 | - | 1,007,013 | - |
| Shares issued to AdCel executives ^[5] | 5,458,200 | - | 352,205 | - |
| Share issued as collateral for Loan note ^[6] | 3,100,000 | - | - | - |
| At period end | 288,604,744 | 249,699,958 | 20,025,656 | 15,665,594 |

^[1] Convertible note holders were issued 2,745,721 shares on 27 February 2018 on conversion of the notes. An additional 484,539 shares were issued to those convertible note holders on 15 June 2018.

^[2] A capital raise of \$2,000,000 was completed on 11 May 2018 with 12,500,000 shares issued. Transaction costs of \$120,000 were incurred in relation to the transaction.

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^[3] A Share Purchase Plan to existing shareholders was closed on 6 June 2018 raising \$204,350 with the issuance of 1,290,625 shares.

^[4] Total consideration for the acquisition of AdCel was 21,729,091 shares of the Group. The remaining 10,657,140 shares were issued on 08 March 2019. See Note 25 and Note 30 for further details.

^[5] As part of continuing consulting agreement with AdCel's executives, shares were issued as consideration.

^[6] Per the terms of the Loan note, shares were issued as collateral; See Note 27 for further details.

Nature and purposes of reserves

Share Based Payments Reserve: This reserve represents the fair value of shares issued to employees in engage:BDR LLC and options issued to the broker in connection with the IPO.

Foreign Currency Translation Reserve: This reserve represents the foreign exchange translation differences arising from translation non-AUD functional currency entities into the AUD presentation currency of the Group for consolidated reporting purposes.

Equity investment Reserve: The reserve is used to recognise increments and decrements in the fair value of financial assets at fair value through other comprehensive income.

20. Commitments for expenditure

(a) Finance lease commitments

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

| | 2018 | 2017 |
|---|----------------|----------------|
| | AUD \$ | AUD \$ |
| Gross finance lease liabilities – minimum lease payments: | | |
| Within 1 year | 292,285 | 438,608 |
| Later than 1 year and no later than 5 years | 152,436 | 278,950 |
| Total minimum lease payments | 444,721 | 717,558 |
| Less amounts representing finance charges | (44,035) | (47,454) |
| Exchange difference | (2,641) | 916 |
| Present value of minimum lease payments | 398,045 | 671,020 |
| <i>Current</i> | 292,285 | 391,231 |
| <i>Non-current</i> | 105,760 | 279,789 |
| Total lease liability | 398,045 | 671,020 |

(b) Operating lease commitments

| | 2018 | 2017 |
|---|-------------|-------------|
| | AUD \$ | AUD \$ |
| Within one year | 156,008 | 584,965 |
| Later than one year but not later than five years | 8,645 | 153,422 |
| | 164,653 | 738,387 |

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

21. Trade and other payables

(a) Current

| | 2018 | 2017 |
|--|-------------------|-------------------|
| | AUD \$ | AUD \$ |
| Trade payables ^[1] | 9,115,785 | 9,404,319 |
| Credit card liabilities ^[2] | 441,173 | 1,001,556 |
| Accrued expenses ^[1] | 1,244,209 | 1,625,293 |
| Deferred income | 409,074 | 876,389 |
| Accrued payroll liabilities ^[3] | 237,757 | 74,755 |
| Bonus and commissions payable ^[3] | 238,696 | 980,076 |
| Accrued municipal tax | 115,350 | 40,545 |
| Deferred service costs ^[4] | - | 154,390 |
| Deferred payable ^[5] | 1,055,057 | - |
| Exchange difference | (634) | - |
| | 12,856,467 | 14,157,323 |

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

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

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

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

^[2] This amount related to credit card liabilities which are interest bearing.

^[3] Accrued payroll liabilities is comprised of salary wages, commissions, and benefits (mainly accrued paid-time off, pension, and insurance related liabilities).

^[4] Deferred service costs relate to contractor fees that were paid upfront by an external provider for which the Group has negotiated a contractually agreed repayment term. Deferred service costs are contracted in US Dollars.

^[5] Total consideration for the acquisition of AdCel was 21,729,091 shares of the Group. As at 31 December 2018, there was 10,657,140 shares not yet issued and outstanding. They were issued on 08 March 2019. See Note 25 and Note 30 for further details.

(b) Non-current

| | 2018 | 2017 |
|------------------------|-------------|-------------|
| | AUD \$ | AUD \$ |
| Deferred service costs | - | 2,892 |

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

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22. Employee benefit liabilities

(a) Current employee benefit liabilities

| | 2018 | 2017 |
|--------------|-------------|-------------|
| | AUD \$ | AUD \$ |
| Annual leave | 52,410 | 85,409 |

(b) Non-current employee benefit liability

There are no non-current employee benefit liabilities as at 31 December 2018 (2017: \$Nil).

23. Related party disclosures

The Group's related parties include its key management personnel and employees.

The Group has secured (\$1,789,070) and unsecured (\$439,962) loans due from key management personnel and employees.

As at 31 December 2018, the loan receivable of \$2,229,032 is classified as a current receivable. The original repayment date was 30 June 2018 and a revised repayment date of 30 June 2019 was approved by a Board resolution on 23 August 2018. Additionally, on 20 December 2018, the borrowers granted security for these receivable amounts to be secured against personal holdings of the Group's shares. For unsecured portions of the loans, management has not found any indicators of impairment due to continued employment of loan holders and due date of 2019.

(a) Loans to/from related parties

(i) Loans to key management personnel and employees

| | 2018 | 2017 |
|-------------------------------|------------------|------------------|
| | AUD \$ | AUD \$ |
| Beginning of the year | 2,277,582 | 2,774,629 |
| Loans advanced | 329,432 | 419,585 |
| Loan repayments received | - | (652,459) |
| Loan offset ^[2] | (633,338) | - |
| Loans forgiven ^[3] | - | (108,419) |
| Interest charged | 63,025 | 68,642 |
| Loan reclass to expense | (39,244) | (11,946) |
| Interest receivable forgiven | - | (415) |
| Exchange difference | 231,575 | (212,035) |
| End of year | 2,229,032 | 2,277,582 |

^[1] Per a Board special resolution on 20 December 2018, a total of \$633,338 of the loan balance was deemed to be offset as payment in recognition of significantly reduced payroll for 2011 and 2013 with the same amount recognised as remuneration.

^[2] As part of the departure package of an employee in early 2017, their loan balance of US\$83,085 (AU\$108,419) was forgiven as part of their termination agreement.

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(ii) Loans from key management personnel

| | 2018 | 2017 |
|-----------------------|-------------|-------------|
| | AUD \$ | AUD \$ |
| Beginning of the year | - | - |
| Loans advanced | - | 65,246 |
| Loan repayments made | - | (65,246) |
| Interest charged | - | - |
| Interest paid | - | - |
| Exchange difference | - | - |
| End of year | - | - |

(iii) Loans to an associate

As detailed in note 7 Galaxy Group LA LLC ceased to be an associate on the effective listing of Lottogopher Holdings Inc.

| | 2018 | 2017 |
|--|-------------|-------------|
| | AUD \$ | AUD \$ |
| Beginning of the year | - | 37,705 |
| Loans advanced | - | - |
| Conversion to shares upon IPO of associate | - | (37,705) |
| Exchange difference | - | - |
| End of year | - | - |

| | | |
|---|------------------|------------------|
| Aggregate total of loans to related parties ^[1] | 2,229,032 | 2,277,582 |
|---|------------------|------------------|

^[1] Representing sum of loans to key management personnel and loans to associates

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

| | 2018 | 2017 |
|------------------------------------|-------------|-------------|
| | AUD \$ | AUD \$ |
| Short-term employee benefits | 1,851,883 | 2,065,024 |
| Share-based payments | - | 1,415,836 |
| Loan forgiveness | - | 108,419 |
| 401(k) withholdings | 1,810 | 2,655 |
| Total short-term employee benefits | 1,853,693 | 3,591,934 |

(c) Terms and conditions

Loans to key management personnel are charged interest at a simple interest rate of 2.78% per annum (2017: 2.78%), calculated monthly. Further loans were advanced during the period. The loans when advanced were all unsecured and repayable by 30 June 2019. \$1,789,070 of the loans outstanding were subsequently secured against each individuals' shareholding. All loans were approved by the Board of Directors of the Group.

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

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

24. Investments in equity instruments

The Group previously held an equity investment of 23.3% in Galaxy Group LA LLC ('Galaxy') which was accounted for using the equity method due to the Group having significant influence over that entity.

On 23 May 2017, Lottogopher Holdings Inc., ('Lottogopher') a related entity of Galaxy, successfully completed an Initial Public Offering on the Canadian Stock Exchange. Lottogopher subsequently completed a reverse acquisition of Galaxy with the Group also holding a promissory note in Galaxy which was also converted into equity upon the successful listing of Lottogopher as at 23 May 2017, which resulted in a fair value gain of \$2,475,318 being recognised in the profit or loss in the year ended 31 December 2017 upon remeasurement of the investment to fair value. The Group continues to hold 6% of the shareholding of Lottogopher Inc post IPO as at 31 December 2017 and 31 December 2018.

Prior to the adoption of AASB 9 on 1 January 2018, the equity shares held in Lottogopher Holdings Inc. were considered to be an available for sale financial instrument that was recognised at fair value through the Profit or loss. Upon adoption of AASB 9, from the initial application date of 1 January 2018, this investment was designated as an equity investment at fair value through OCI. The fair value of these equity instruments is determined based on market observable values at each reporting date with fair value gains or losses being recognised in OCI. Accordingly, the fair value has been classified as a Level 1 input under the fair value hierarchy of AASB 13 *Fair Value Measurement* at these equity instruments are quoted on an active market.

As at 31 December 2018, the fair value of the investment of equity instruments was \$164,954.

Due to an existing contractual obligation, 15% of the shares held in Lottogopher Holdings Inc. from the date of its listing have been released from escrow or will be released from escrow within 12 months from the year end date and remaining 85% released at intervals which are greater than twelve months from the period end date. Accordingly, \$114,314 of the shares are recognised as a current investment in equity instruments asset and \$50,640 as a non-current investment in equity instruments asset.

25. Contingencies

The company has been invoiced an amount of \$294,000 for the review of its half year financial report. This amount is in addition to the contracted sum. The company disputes this amount and the directors are confident that no payment will be required and have not made a provision for this amount in the financial statements.

The Group is a target for fraudulent claims from suppliers claiming for non-refundable services. At balance date, claims of \$1,379,435 exists which the directors are confident will be fully defended.

26. Business combinations

Acquisition of AdCel LLC

The Group completed the acquisition of AdCel LLC on 30 July 2018 in which the Group provided consideration of 21,729,091 fully paid ordinary shares in Engage:BDR Limited at AUD \$0.099 cents per share.

Per the terms of the sale and purchase agreement, the arrangement includes future consideration payable in \$USD cash to the vendors of AdCel based on the AdCel achieving specific financial performance hurdles. The first contingent cash consideration amount payable of \$1 million USD exists under terms if AdCel achieve revenue of \$1.75 million USD in the 12 month period to December 2018, with two further contingent cash consideration amounts payable of \$750,000 USD based on achieving revenue and gross margin of 30% in each of the 12 month periods to 31 December 2019 and 31 December 2020 respectively. An analysis of actual results January 2018 to July 2018 and forecast results August 2018 to December 2018 indicate AdCel will be short of this target for the period to 31 December 2018. Since acquisition date, AdCel has generated \$336,832 in revenue and \$101,050 in gross profit. Under the terms of the revised agreement, AdCel will no longer receive the \$1 million USD in cash consideration as foreshadowed in the original ASX Announcement about the proposed acquisition at the date of acquisition, with the initial consideration being settled in equity.

engage:BDR Limited
Notes to the Financial Statements
For the year ended 31 December 2018

On 31 August 2018, the Group issued 4,548,498 ordinary fully paid shares and 6,523,453 ordinary fully paid shares escrowed for 6 months part of the consideration owed for the acquisition of AdCel LLC. The remaining 10,657,140 fully paid ordinary shares voluntarily escrowed until 31 August 2019 were issued on 08 March 2019.

Assets acquired and liabilities assumed

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

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

| | AUD \$ |
|---|------------------|
| Amount settled in cash | - |
| Fair value ordinary shares issued | 1,096,123 |
| Fair value ordinary shares to be issued | 1,055,057 |
| Fair value of consideration transferred | 2,151,180 |
| Recognised amounts of identifiable net assets: | |
| Cash and cash equivalents | 115,120 |
| Intangible assets | 1,263,168 |
| Other assets | 235,918 |
| Other liabilities | (918,548) |
| Net assets acquired | 695,658 |
| Goodwill | 1,455,522 |
| Acquisition-date fair value of the total consideration transferred | 2,151,180 |

This fair value was derived using the income approach, a risk weighted discounted cash flow (DCF) method. AdCel is an unlisted company and as such no market information was available. The fair value estimates were based on:

- (a) assumed pre-tax discount rate of 28.0%
- (b) assumed long-term growth rate of 3.0%

27. Convertible loan notes

Between 6 June 2016 and 30 August 2016, the Group entered into convertible note agreements in the aggregate principal amount of US\$385,000 (AU\$534,611). Each note has a maturity of between 18 to 24 months, bears simple interest at the rate of 7.0% per annum, is unsecured and ranks pari passu with other unsecured debt obligations of the Group.

If, prior to maturity, the Group completes a financing or related financing of equity securities with aggregate gross proceeds of at least 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 mandatorily 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 and issuing of securities to note holders remained outstanding. Due to the existence of the additional feature within the note agreements the outstanding value of the notes remained classified as a liability and were not converted into equity (despite the mandatory conversion clause), with a current liability inclusive of face value and accrued interest of \$543,051 recognised as at 31 December 2017.

engage:BDR Limited
Notes to the Financial Statements
For the year ended 31 December 2018

On 27 February 2018, the Group completed the issuance of new shares to the convertible note holders, resulting in 2,745,721 new shares being issued. The shares converted at a notional value of \$0.20 which is an increase from the initial contractual arrangement price of \$0.16 with note holders. This change in price was agreed with the note holders in return for modifying the terms of the additional review feature contained in the note agreements which has been valued separately below, with the arrangement resulting in additional equity to be issued to reflect the change in the conversion price. Upon issuance of the new shares on 27 February 2018 the convertible notes liability converted into equity.

On 15 June 2018, the six month review period of the additional review feature ended which resulted in the issuance of an additional 484,539 shares at the daily average share price of \$0.167.

On 20 November 2018, the company entered into a loan note agreement that provided \$750,000 USD in funding by issuing 750,000 unlisted loan notes (and, per the terms of the agreement, 3,100,000 collateral shares) that, per the terms of the agreement, were to be replaced by 750,000 unlisted convertible securities. The issuance of the replacement convertible securities was ratified on 29 January 2019 during a general shareholder meeting. This funding arrangement also is able to provide another \$750,000 USD of funding on 20 May 2019. As at the date the Company received shareholder approval, a total of \$125,000 USD of loan notes were repaid in cash.

28. Embedded derivative liability

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

| | 2018 | 2017 |
|--|-------------|-------------|
| | AUD \$ | AUD \$ |
| Initial value of embedded derivatives | - | 140,808 |
| Change in fair value | - | (140,808) |
| Total embedded derivative liability | - | - |

The fair value of this derivative has been classified as a Level 3 valuation. The change in fair value of the derivative element of the US\$385,000 (AU\$564,611) convertible notes from \$140,808 to \$nil is the result of change in assumptions used to value the embedded derivative as with the successful listing on the ASX the convertible notes now mandatorily convert:

29. Loss per share

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

| | Basic | Consolidated | | Diluted |
|-----------------------|---------------|---------------------|---------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Continuing operations | (0.04) | (0.07) | (0.04) | (0.07) |
| Loss per share | (0.04) | (0.07) | (0.04) | (0.07) |

(a) Earnings used in calculating earnings loss per share

| | 2018 | 2017 |
|---|---------------------|---------------------|
| | AUD \$ | AUD \$ |
| Loss used in calculating basic earnings loss per share: | | |
| Continuing operations | (10,840,198) | (10,566,001) |
| | (10,840,198) | (10,566,001) |

engage:BDR Limited
Notes to the Financial Statements
For the year ended 31 December 2018

(b) Weighted average number of shares used as denominator

| | 2018 | 2017 |
|--|--------------------|--------------------|
| | Number | Number |
| Weighted average number of shares (Basic) | 269,188,212 | 146,333,445 |
| Weighted average number of ordinary and potential ordinary shares (Diluted) | 272,188,105 | 150,813,161 |

30. Share based payments

(a) Equity settled employee shares

24,583,239 shares at AUD \$0.13 were issued to employees on 26 August 2017 (AUD to USD exchange rate of 0.7943 at 26 August 2017) in engage:BDR LLC. This transaction was non-cash based, with the expense being recognised in profit or loss in the Statement of Comprehensive Income for the year ended 31 December 2018 being \$nil (2017: \$3,437,070).

Whilst the Directors considered that the economic loss of issuing these shares was not suffered by the Group, but rather by the individual shareholders (immediately post issuing the shares), AASB 2 *Share Based Payments* requires that the cost of issuing these new shares be recognised by the Group. The Group obtained an external valuation to assist in determining the fair value of the issued shares.

There were no performance obligations or service criteria attached to the shares which were considered to vest immediately on issue. These shares were later converted into shares of Engage BDR Limited on completion of the IPO.

Nature and description of share options

During the 2017 financial year, the group issued the following share options:

Equity settled investor options

The Group issued 2-for-1 options to all investors who purchased shares in engage:BDR Limited as part of the IPO, which took place on 14 December 2017. There were no performance obligations or service criteria attached to the options which have been considered to vest immediately on issue and which have an exercise price of \$0.25. The Group has considered the fixed for fixed criteria contained in AASB 132 *Financial instruments: Presentation* and have deemed that as these options can be settled in a fixed number of the Group's shares, that no separate fair value measurement is required for these options. Accordingly, they have been assessed as being contained within the fair value of the shares issued upon IPO, refer to Statement of Changes in Equity.

Broker options

The Group issued 5,000,000 share options to the listing broker on completion of the IPO as at 14 December 2017. The share options are exercisable over 3 years at an exercise price of \$0.25 (25 cents), with no performance condition attached and have been considered to vest immediately on issue. The options expire 14 December 2020.

The Group recognised in the Statement of Changes in Equity for the year ended 31 December 2017 an amount of \$311,584 being the option expense deducted from equity related to transaction costs paid to a third party (through the issuance of shares) on completion of the IPO.

The fair value of options granted during the year was determined using a Black Scholes option pricing model due to the immediate vesting conditions attached to these options. No options had been exercised as at 31 December 2017, therefore all 5,000,000 remained outstanding.

engage:BDR Limited
Notes to the Financial Statements
For the year ended 31 December 2018

Options issued during the prior period:

| | Investor Options | Broker options |
|-------------------------|--------------------------|--------------------------|
| Grant date | 14 December 2017 | 14 December 2017 |
| Number of options | 24,999,993 | 5,000,000 |
| Exercise price | \$0.25 | \$0.25 |
| Vesting hurdle | None: Vested immediately | None: Vested immediately |
| Risk-free interest rate | 2.51% | 2.51% |
| Expiry date | 14 December 2020 | 14 December 2020 |

31. Events occurring after the balance sheet date

On 21 January 2019, the Company announced that two new recently signed integrations, Third Presence and AcuityAds had gone live.

On 23 January 2019, the Company issued 25,099,423 fully paid ordinary shares to professional and sophisticated investors at a price of \$0.028 (2.8 cents) per share, raising a total of \$702,784 before costs of issue.

On 30 January 2019, the Company issued 13,471,396 fully paid ordinary shares on conversion of 106,188 convertible notes at a conversion price of \$0.011 (1.1 cents) per share.

On 20 January 2019, the Company issued:

- 625,000 unlisted convertible notes issued at USD \$0.90 per Note with a face value of \$1.00 USD per Note. Notes are secured with a maturity date of 10 November 2019. The Notes are convertible at the lesser of \$0.09 AUD converted into USD, and a market share price-derived amount. These convertible notes replaced the 625,000 Loan Notes outstanding from the Loan Note issue made in November 2018.
- 1,900,000 fully paid ordinary shares at a deemed issue price of \$0.06 (6 cents) per share as the remaining security for the convertible notes.
- 8,676,093 unlisted options exercisable at \$0.052, expiring 29 January 2022.

On 4 February 2019, the Company issued 9,028,597 fully paid ordinary shares on conversion of 85,052 convertible notes at a conversion price of \$0.013 (1.3 cents) per share.

On 18 February 2019, the Company issued 7,498,236 fully paid ordinary shares on conversion of 92,500 convertible notes at a conversion price of \$0.018 (1.8 cents) per share.

On 18 February 2019 the Company announced a new integration, Comcast Freewheel.

On 25 February 2019 the Company announced two new integrations, MobFox and Chalk Digital.

On 28 February 2019, the Company issued the following:

- 589,300 fully paid ordinary shares to a consultant in lieu of consulting fees at a deemed issue price of \$0.051 (5.1 cents) per share;
- 2,000,000 fully paid ordinary shares to a consultant in lieu of consulting fees at a deemed issue price of \$0.022 (2.2 cents) per share;
- 18,607,945 fully paid ordinary shares for settlement of outstanding creditor balances at a deemed issue price of \$0.021 (2.1 cents) per share.

engage:BDR Limited
Notes to the Financial Statements
For the year ended 31 December 2018

On 8 March 2019, the Company issued the following:

- 10,657,140 fully paid ordinary shares for completion of the acquisition of AdCel LLC as per the Company's announcement on 30 July 2018, at a deemed issued price of \$0.22 (22 cents) per share;
- 4,000,000 listed options as consideration for corporate advisory services, exercisable at \$0.25 (25 cents) per option by 22 December 2020.

On 18 March 2019, the Company issued the following:

- 11,347,597 fully paid ordinary shares on conversion of 117,500 unlisted convertible notes at a conversion price of \$0.015 (1.5 cents) per share;
- 12,467,980 fully paid ordinary shares for settlement of outstanding creditor balances at a deemed issue price of \$0.031 (3.1 cents) per share.

On 20 March 2019, the Company issued 17,719,531 fully paid ordinary shares on conversion of 188,760 unlisted convertible notes at a conversion price of \$0.015 (1.5 cents) per share.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

32. Remuneration of auditors

The auditor of engage:BDR Limited is BDO. The amounts received or due and receivable by BDO for audit and other services were as follows:

| | 2018 | 2017 |
|---|---------------|----------------|
| | AUD \$ | AUD \$ |
| Amounts received or due and receivable by BDO Australia for: | | |
| An audit of the financial report of the Group ^[1] | 70,000 | 140,000 |
| Other services in relation to the group and its subsidiaries: | | |
| Transaction and IPO related procedures ^{[1] [2]} | - | 248,000 |
| Total auditor's remuneration | 70,000 | 388,000 |

^[1] 2017 auditors were EY Australia.

^[2] These costs included fees related to the Independent Limited Assurance Review and non-statutory 30 June 2017 review undertaken related to the IPO. Fees related to the IPO have been recorded as a deduction from equity in accordance with AASB 132.

The Directors are satisfied that the provision of non-audit services during the current period is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

33. Parent entity information

| | 2018 | 2017 |
|---------------------|----------------|------------------|
| | AUD \$ | AUD \$ |
| Current assets | 192,541 | 348,068 |
| Non-current assets | - | 9,001,178 |
| Total assets | 192,541 | 9,349,246 |

engage:BDR Limited
Notes to the Financial Statements
For the year ended 31 December 2018

| | | |
|---|---------------------|------------------|
| Current liabilities | (2,209,371) | (120,000) |
| Total liabilities | <u>(2,209,371)</u> | <u>(120,000)</u> |
| Issued capital | 13,485,689 | 9,037,695 |
| Retained earnings | (15,814,102) | (120,032) |
| Share based payment reserve | 311,583 | 311,583 |
| Total shareholders' equity | <u>(2,016,830)</u> | <u>9,229,246</u> |
| Loss of the parent entity | <u>(15,694,070)</u> | <u>(120,032)</u> |
| Total comprehensive loss of the parent entity | <u>(15,694,070)</u> | <u>(120,032)</u> |

No contingent liabilities, or contractual commitments, or guarantees in relation to the debts of its subsidiaries have been entered into by the parent entity as at 31 December 2018 (2017: None).

As discussed in Note 1 (a) the parent company was incorporated on August 17, 2017.

The parent entity has assessed for indicators of impairment of the investment in subsidiaries (engage:BDR LLC and AdCel LLC). As both subsidiaries have a net liability position as at 31 December 2018, management has determined that the investment and loan amounts are fully impaired and recognized through the Profit or Loss. The Loss of the parent entity excluding the impairment losses is \$1,242,124.

engage:BDR Limited
Directors' Declaration
31 December 2018

In the directors' opinion:

- (a) The consolidated financial statements and notes of engage:BDR Limited are in accordance with the *Corporations Act 2001* and other mandatory professional reporting requirements;
- (b) The attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 of the financial statements;
- (c) The attached financial statements and notes give a true and fair view of the company's and Group's financial position as at 31 December 2018 and of their performance for the financial year ended on that date; and
- (d) There are reasonable grounds to believe that the company will be able to pay its debts as they become due and payable.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the Board



T Dhanik
Director
Los Angeles
29 March 2019

INDEPENDENT AUDITOR'S REPORT

To the members of engage:BDR Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of engage:BDR Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material uncertainty related to going concern

We draw attention to Note 2(c) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Revenue Recognition

| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
|--|---|
| <p>engage:BDR Limited has adopted AASB 15 <i>Revenue from Contracts with Customers</i> from 1 January 2018. Revenue recognition was identified as a key audit matter due to the significance of revenue to the financial report and the degree of judgement and estimation required by management including the identification of the discrete performance obligations within each contract and the timing and quantum of revenues to be recognised where the project related performance obligation is satisfied over time.</p> <p>The accounting policy for revenue recognition is described in Note 2(f), 'Revenue recognition', and details of revenue are disclosed in Note 4 of the accompanying financial report.</p> | <p>Our audit procedures to address the key audit matter included the following:</p> <ul style="list-style-type: none"> Assessing the Group's accounting policy for revenue to ensure it has been correctly formulated in accordance with the Australian Accounting Standards. Performing revenue substantive procedures and analytical review. Selecting a sample of revenue transactions to ensure revenue was recognised in accordance with AASB 15 <i>Revenue from Contracts with Customers</i>. Reviewing the disclosures regarding revenue recognition to ensure compliance with AASB 15 <i>Revenue from Contracts with Customers</i>. |

Acquisition of Adcel LLC and related goodwill impairment test

| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
|--|--|
| <p>As disclosed in note 26 the Group acquired Adcel LLC during the year ended 31 December 2018. As required by AASB 3 <i>Business Combinations</i>, management performed a review for other intangible assets acquired as part of the acquisition, treating the remaining excess of purchase consideration over the identifiable net assets acquired as goodwill. This is significant to our audit because it resulted in the recognition of goodwill and capitalised software development costs.</p> <p>This has been identified as a key audit matter because of the significance of the transaction and the management judgements involved in estimating fair values.</p> | <p>Our audit procedures to address the key audit matter included the following:</p> <ul style="list-style-type: none"> • Reading the purchase and sales agreement to understand the terms and conditions of the acquisition and evaluating management’s application of the relevant accounting standards; • Evaluating the assumptions and methodology in management’s determination of the fair value of assets and liabilities acquired; • Obtaining a copy of the external valuation report to critically assess the determination of fair values of the identifiable intangibles assets associated with the acquisition; • Reviewing the Company’s discounted cash flow model used to assess the carrying value of goodwill. |

Capitalisation of software development costs

| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
|---|--|
| <p>As disclosed in Note 16, the Group capitalised software development in the statement of financial position.</p> <p>The capitalisation of software development costs was a key audit matter due to the significance of the balance and the judgement involved in assessing whether the criteria set out in AASB 138 <i>Intangible Assets</i> for capitalisation of such costs have been met and the useful life appropriately determined.</p> | <p>Our audit procedures to address the key audit matter included the following:</p> <ul style="list-style-type: none"> • Evaluating the key assumptions made in capitalising development costs, including an assessment of whether capitalised costs related to the development phase of the project and the generation of probable future economic benefits; • Agreeing payroll costs capitalised to supporting payroll records and assessing the determination as to whether the capitalised costs relate to development activities; • Evaluating the Company’s assessment of the useful life of the software development assets. |

Remeasurement of payables

| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
|---|---|
| <p>As disclosed in Note 7, the Group derecognised liabilities and recorded them as other income in profit or loss.</p> <p>We considered this issue to be a key audit matter due to the significance of the balance reported as other income and the extent to which management judgements and estimates determine the value to be derecognised.</p> | <p>Our audit procedures to address the key audit matter included the following:</p> <ul style="list-style-type: none"> Assessing the Group’s policy for identifying liabilities to be derecognised, including considering the criteria for derecognition under AASB 9 <i>Financial Instruments</i>. Testing a sample of liabilities derecognised to ensure they are in line with the policy and the requirements of AASB 9. |

Other information

The directors are responsible for the other information. The other information comprises the information in the Group’s annual report for the year ended 31 December 2018, but does not include the financial report and the auditor’s report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor’s responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an



audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 18 of the directors' report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of engage:BDR Limited, for the year ended 31 December 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO East Coast Partnership

A stylized, handwritten-style logo of the letters 'BDO' in black ink.

A handwritten signature in black ink that reads 'James Mooney'.

James Mooney
Partner

Melbourne, 29 March 2019

engage:BDR Limited
Shareholder information
31 December 2018

The shareholder information set out below was applicable as at 27 March 2019.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

| | Number of holders of ordinary shares | Number of holders of options over ordinary shares |
|---------------------------------------|---|--|
| 1 to 1,000 | 43 | - |
| 1,001 to 5,000 | 58 | 233 |
| 5,001 to 10,000 | 252 | 321 |
| 10,001 to 100,000 | 881 | 287 |
| 100,001 and over | 322 | 47 |
| | <u>1,556</u> | <u>888</u> |
| Holding less than a marketable parcel | <u>444</u> | <u>-</u> |

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

| | Ordinary shares Number held | % of total shares issued |
|--|--------------------------------|--------------------------------|
| First Round Capital LLC | 57,681,498 | 13.77 |
| Mr Kenneth Kwan | 52,529,242 | 12.54 |
| Mr Kurtis Rintala | 36,717,391 | 8.76 |
| Comsec Nominees Pty Ltd | 21,356,068 | 5.10 |
| Argon Adtech Group | 15,210,302 | 3.63 |
| Mr Abdulaziz Saleh Alrajhi | 9,341,647 | 2.23 |
| Netshare Nominees Pty Ltd | 6,944,282 | 1.66 |
| Run Capital Limited | 6,518,789 | 1.56 |
| Citicorp Nominees Pty Limited | 6,005,601 | 1.43 |
| Pershing Australia Nominees Pty Ltd (Accum A/C) | 4,996,195 | 1.19 |
| Ms Lay Kheng Ong | 4,200,000 | 1.00 |
| CMC Market Stockbroking Nominees Pty Limited (Accum A/C) | 3,823,420 | 0.91 |
| CST Capital Pty Ltd (CST Investments Fund A/C) | 3,000,000 | 0.72 |
| Mr Anthony Collet | 3,000,000 | 0.72 |
| BNP Paribas Nominees Pty Ltd (IB AU Noms Retailclient DRP) | 2,997,319 | 0.72 |
| Mr Jason Steingold | 2,931,470 | 0.70 |
| Mr Ninoslav Zmijanac | 2,693,290 | 0.64 |
| Dr David James Walland | 2,633,801 | 0.63 |
| Rylet Pty Ltd | 2,600,000 | 0.62 |
| State One Nominees Pty Ltd (Accumulation A/C) | 2,517,115 | 0.60 |
| | <u>247,697,430</u> | <u>59.13</u> |

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| | Options over ordinary shares | |
|--|-------------------------------------|----------------------------------|
| | Number held | % of total options issued |
| Mr Colin Richard Korn | 1,394,951 | 4.81 |
| Mr Christopher John Girling and Ms Yvette Louise Clark (Moloscyg Superannuation A/C) | 1,200,000 | 4.14 |
| Clarksons Boathouse Pty Ltd (Clarkson Super Fund A/C) | 1,075,000 | 3.71 |
| Mr Girish Mallesara Hiriyanagowda | 990,734 | 3.42 |
| Taos Pty Ltd (Geilings & Co Pty Super A/C) | 877,682 | 3.03 |
| Wine Guru Australia Pty Ltd (Donela Family A/C) | 829,374 | 2.86 |
| Sean Anthony Mulligan + Anya Rebecca Mulligan (S & A Mulligan Super A/C) | 800,000 | 2.76 |
| Mr Luke Steven Schembri | 750,000 | 2.59 |
| Michael James Dixon | 711,706 | 2.45 |
| Conrad Joseph Lawrence Goodger | 705,000 | 2.43 |
| Comsec Nominees Pty Limited | 682,447 | 2.35 |
| J P Morgan Nominees Australia Pty Limited | 675,000 | 2.33 |
| Dr David James Walland | 575,000 | 1.98 |
| Mr John Louis Sultana | 552,625 | 1.91 |
| Mr Jeffrey William Cozens | 444,444 | 1.53 |
| Bellaire Capital Pty Ltd (Bellaire Capital Invest A/C) | 426,350 | 1.47 |
| Mr Ernie Aljin Abella | 358,429 | 1.24 |
| Mr John Anthony Thomas | 326,000 | 1.12 |
| Mr Hazim Ejaz | 300,000 | 1.03 |
| Ajava Holdings Pty Ltd | 290,000 | 1.00 |
| | 13,964,742 | 48.16 |

Unquoted equity securities

| | Number on issue | Number of holders |
|--|------------------------|--------------------------|
| Unlisted convertible notes | 35,000 | 1 |
| Unlisted options over ordinary shares issued | 8,676,093 | 1 |

The following persons hold 20% or more of unquoted equity securities:

| Name | Class | Number held |
|----------------------|--|--------------------|
| CST Investments Fund | Unlisted convertible notes | 35,000 |
| CST Investments Fund | Unlisted options over ordinary shares issued | 8,676,093 |

Substantial holders

Substantial holders in the company are set out below:

| | Ordinary shares | |
|-------------------------|------------------------|---------------------------------|
| | Number held | % of total shares issued |
| First Round Capital LLC | 57,681,498 | 13.77 |
| Mr Kenneth Kwan | 52,529,242 | 12.54 |
| Mr Kurtis Rintala | 36,717,391 | 8.76 |

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Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Securities subject to voluntary escrow

| Class | Expiry date | Number of shares |
|--|--------------------|-------------------------|
| Fully paid ordinary shares | 14 December 2019 | 73,464,065 |
| Listed options (exercisable at \$0.25) | 11 December 2020 | 5,000,000 |
| | | <u>78,464,065</u> |

Consistency with business objective - ASX Listing Rule 4.10.19

In accordance with Listing Rule 4.10.19, the Group states that it has used the cash and assets in a form readily convertible to cash in a way consistent with its business objective as disclosed in the Prospectus dated 8 September 2017 and Replacement Prospectus dated 15 September 2017.

Annual General Meeting

Engage:BDR Limited advises that its Annual General Meeting will be held on Wednesday 29 May 2019. The time and other details relating to the meeting will be advised in the Notice of Meeting to be sent to all Shareholders and released to ASX immediately upon despatch.

Corporate Governance Statement

The Company's 2018 Corporate Governance Statement has been released to ASX on this day and is available on the Company's website at: <https://engagebdr.com/investor-center/board-management-and-corporate-governance/>