



ENGAGE:BDR LIMITED

ACN 621 160 585

ANNUAL REPORT - 31 DECEMBER 2019

engage:BDR Limited

Contents

31 December 2019

Corporate directory	2
Directors' report	3
Auditor's independence declaration	22
Statement of profit or loss and other comprehensive income	23
Statement of financial position	24
Statement of changes in equity	25
Statement of cash flows	26
Notes to the financial statements	27
Directors' declaration	52
Independent auditor's report to the members of engage:BDR Limited	53
Shareholder information	60

engage:BDR Limited
Corporate directory
31 December 2019

Directors	Mr Ted Dhanik Mr Kurtis Rintala Mr Tom Anderson Mr Darian Pizem Mr Robert Antulov
Company secretary	Ms Melanie Leydin
Registered office	Scottish House Level 4 90 William Street Melbourne Victoria 3000 Australia
Principal place of business	8439 W Sunset Boulevard Suite 302 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	William Buck Audit (Vic) Pty Ltd Level 20, 181 William 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 2019 Corporate Governance Statement has been released to ASX on 20 March 2020 and is available on the Company's website.

engage:BDR Limited
Directors' report
31 December 2019

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 2019 (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 Darian Pizem (Non-Executive Director)
Mr Robert Antulov (Non-Executive Director)

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 \$1,343,429 (31 December 2018: loss of \$10,840,198).

Non-programmatic display advertising sales

The Group's non-programmatic display advertising sales was 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 was discontinued in 2019. The Group notes that this part of the Group's revenue stream was planned to and has ceased to continue 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 the move to a fully automated operation during 2020.

Programmatic display, native and video advertising sales

The Group's Programmatic advertising sales includes selling display, native and video 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. The adoption of programmatic display advertising sales has proven to be extremely successful in 2019 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.

The Group's 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 salespeople, 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.

engage:BDR Limited
Directors' report
31 December 2019

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 mobile or CTV app content 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 video advertising sales

The Group's non-programmatic video advertising sales included selling video inventory through tag-based technology to direct advertisers, platforms and marketplaces. The Group 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. Management notes that the programmatic video sales has eclipse the non-programmatic video revenue stream, as planned, in 2019. As a result, the non-programmatic video revenue stream has been discontinued.

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 2019. The Group brought in incremental revenue through this platform and further diversification of the Group's product and service offering. With Instagram influencers, TikTok, YouTube, Facebook and SnapChat becoming extremely popular, new marketing channels for advertisers and platform efficiencies are required to scale this new form of media. IconicReach, engage:BDR'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 2020.

Mobile and Connected Television (CTV) App Ads

The Group expects to grow mobile and CTV app (AdCel) ad revenues significantly in 2020. This revenue is no longer dependent on third party technologies compared with prior mobile and CTV app advertising revenues because of the Group's acquisition of AdCel in 2018. As the supply and demand partnerships are integrated by the engineering teams, the revenue is expected to steadily grow throughout the year. AdCel is focused on boarding significant volumes of new app publishers, primarily through the Group's NetZero payments product, which enables publisher payments the same day the Group is invoiced.

Significant changes in the state of affairs

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 29 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 26 January 2022.

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.

engage:BDR Limited
Directors' report
31 December 2019

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.

On 2 April 2019, the Company issued the following:

- 800,000 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 30 January 2020. The Notes are convertible at the lesser of:
 - 92% of the lowest daily VWAP during the five trading days prior to the date of a conversion notice in respect to those Series 2 Notes being given to the Company, rounded down to the nearest \$0.001; and
 - 130% of the five day VWAP during the five trading days prior to the date of issue of the Notes.
- 3,300,034 fully paid ordinary shares with a deemed issue price of \$0.015 (1.5 cents) per share, upon conversion of 35,000 unlisted Series 1 convertible notes;
- 10,889,034 fully paid ordinary shares with a deemed issue price of \$0.031 (3.1 cents) per share, upon conversion of 240,000 unlisted Series 2 convertible notes;
- 14,959,756 fully paid ordinary shares with a deemed issue price of \$0.041 (4.1 cents) per share in relation to settlement of outstanding creditor balances.

On 5 April 2019, the Company issued 13,220,706 fully paid ordinary shares with a deemed issue price of \$0.034 (3.4 cents) per share, upon conversion of 320,000 unlisted Series 2 convertible notes.

On 8 April 2019, the Company issued the following:

engage:BDR Limited
Directors' report
31 December 2019

- 800,000 unlisted Series 3 convertible notes issued at \$0.90 per Note with a face value of USD\$1.00 per Note. Notes are secured with a maturity date of 8 April 2020. The Notes are convertible at the lesser of:
 - 92% of the lowest daily VWAP during the five trading days prior to the date of a conversion notice in respect of those Series 3 Notes being given to the Company, rounded down to the nearest \$0.001; and
 - 130% of the five day VWAP during the five trading days prior to the date of issue of the Notes.
- 749,810 fully paid ordinary shares with a deemed price of \$0.047 (4.7 cents) per share, for settlement of outstanding liabilities.

On 17 April 2019, the Company announced that it has deployed Facebook advertising as part of its paid social strategy. Advertisements on Facebook utilise users' unique profiles as targeting metrics to allow brands to reach their most appropriate potential customers. As announced on 11 February 2019, the Company targeted a launch in Q3 of this year for this product. Management is pleased to report, that due to customer demand, the first phase of this product has gone live significantly ahead of schedule.

On 18 April 2019, the Company issued the following:

- 7,504,000 fully paid ordinary shares with a deemed issue price of \$0.039 (3.9 cents) per share, upon conversion of 140,000 unlisted Series 2 convertible notes and 70,000 unlisted Series 3 convertible notes;
- 1,136,945 fully paid ordinary shares with a deemed issue price of \$0.049 (4.9 cents) per share in relation to settlement of outstanding liabilities;
- 15,602,041 fully paid ordinary shares with a deemed issue price of \$0.049 (4.9 cents) per share in relation to settlement of outstanding creditor balances.

On 23 April 2019, the Company announced that IconicReach has expanded its influencer marketing to the video sharing app, TikTok. IconicReach will be starting its first TikTok campaign with influencers in the music space, with the intent of creating a viral dance contest by well-known artists.

On 7 May 2019, the Company issued the following:

- 6,241,616 fully paid ordinary shares with a deemed issue price of \$0.039 (3.9 cents) per share, upon conversion of 170,000 unlisted Series 3 convertible notes;
- 19,165,736 fully paid ordinary shares with a deemed issue price of \$0.042 (4.2 cents) per shares, in relation to settlement of outstanding creditors and liability balances.

On 17 May 2019, the Company issued 7,255,000 fully paid ordinary shares with a deemed issue price of \$0.028 (2.8 cents) per share, upon conversion of 70,000 unlisted Series 2 convertible notes and 70,000 unlisted Series 3 convertible notes.

On 31 May 2019, the Company issued the following:

- 8,967,567 fully paid ordinary shares with a deemed issue price of \$0.03 (3 cents) per share, upon conversion of 185,000 unlisted Series 3 convertible notes;
- 8,607,926 fully paid ordinary shares with a deemed issue price of \$0.042 (4.2 cents) per share, in relation to settlement of outstanding creditor balances.

On 14 June 2019, the Company issued the following:

- 4,382,407 fully paid ordinary shares with a deemed issue price of \$0.033 (3.3 cents) per share, upon conversion of 30,000 unlisted Series 2 convertible notes and 70,000 unlisted Series 3 convertible notes;
- 8,563,860 fully paid ordinary shares with a deemed issue price of \$0.038 (3.8 cents) per share, in relation to settlement of outstanding creditor balances.

On 10 July 2019, the Company issued 8,399,240 fully paid ordinary shares for settlement of creditor balances and settlement of outstanding liabilities at a deemed issue price of \$0.043 (4.3 cents) per share.

On 9 August 2019, the Company issued the following:

- 9,767,745 fully paid ordinary shares with a deemed issue price of \$0.034 (3.4 cents) per share, in relation to settlement of outstanding creditor balances;
- 3,038,854 fully paid ordinary shares with a deemed issue price of \$0.034 (3.4 cents) per share, in relation to settlement of employee bonuses.

engage:BDR Limited
Directors' report
31 December 2019

On 30 August 2019, the Company issued 12,397,104 fully paid ordinary shares for settlement of outstanding creditor balances at a deemed issue price of \$0.03 (3 cents) per share.

On 23 September 2019, the Company announced an agreement with Alto Opportunity Master Fund SPC - Segregated Master Portfolio B ("Alto") for the issue of zero coupon convertible amortising securities ("ZCSs").

The Agreement is structured as an initial drawdown (tranche) with the potential for a further 7 drawdowns. If the conditions for all 7 subsequent tranches to be drawn down are satisfied (including the Investor agreeing to proceed with the individual tranches – see further below), the total potential face value amount would be US\$30.9 million and the aggregate issue price before costs would be approximately US\$26.25 million assuming the initial drawdown is US\$1,750,000.

On 25 September 2019, the Company issued the following:

- 28,500,000 fully paid ordinary shares at a deemed issue price of \$0.025 (2.5 cents) per share to Alto in accordance with the Convertible Securities Purchase Agreement;
- 13,750,000 unlisted options exercisable at \$0.026 (2.6 cents) expiring on 30 September 2022. The options were vested immediately on issue;
- Unlisted ZCS issued at USD\$1,750,000 at a face value of USD\$2,060,000. The ZCS is secured, with a maturity date of 30 November 2020.

On 7 November 2019, the Company issued 10,391,461 fully paid ordinary shares for settlement of outstanding creditor balances at a deemed issue price of \$0.027 (2.7 cents) per share.

On 22 November 2019, the Company issued 18,590,229 fully paid ordinary shares for settlement of outstanding creditor balances at a deemed issue price of \$0.021 (2.1 cents) per share.

On 20 December 2019, the Company issued the following:

- 31,967,080 fully paid ordinary shares with a deemed issue price of \$0.022 (2.2 cents) per share, in relation to settlement of outstanding creditor balances;
- 5,946,086 fully paid ordinary shares with a deemed issue price of \$0.022 (2.2 cents) per share, in relation to settlement of employee bonuses.

On 30 December 2019, the Company issued 33,858,947 fully paid ordinary shares for settlement of outstanding creditor balances at a deemed issue price of \$0.02 (2 cents) per share.

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 17 January 2020, the consolidated entity issued 26,975,464 fully paid ordinary shares (Collateral Shares) to Alto at a deemed issue price of \$0.017 (1.7 cents) per share.

On 3 March 2020, the consolidated entity issued 30,420,738 fully paid ordinary shares (Collateral Shares) to Alto at a deemed issue price of \$0.013 (1.3 cents) per share.

On 13 March 2020, the consolidated entity announced a drawdown of a zero coupon convertible amortising security ("ZCS") with a face value of US\$450,000 at an issue price of US\$382,500. The ZCS was issued to Alto Opportunity Master Fund SPC - Segregated Master Portfolio B pursuant to the purchase agreement for ZCS announced by the Company on 23 September 2019.

No other matter or circumstance has arisen since 31 December 2019 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 programmatic and mobile app (AdCel) ad revenues the proprietary platforms

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 programmatic and mobile app (AdCel) ad revenues significantly in 2020. This revenue is no longer dependent on third party technologies compared with prior video advertising revenues. In addition, the gross margins expected to be achieved by the Group are likely to increase significantly as the Group is focused on the quality of ad inventory, yielding the constant adjustments of costs of goods sold to publishers. In addition to the growth of the programmatic and mobile app businesses 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, native and video revenue

The Group also expects to see continued growth of its programmatic display, native and video businesses. 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. 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, TikTok, Facebook, YouTube and SnapChat influencers becoming extremely popular, new marketing channels for advertisers and platform efficiencies are required to scale this new form of media. IconicReach, engage:BDR's Instagram influencer full- and 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 2020.

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: 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.

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.

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.

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.

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.

Other current directorships: Nil
Former directorships (last 3 years): Nil
Interests in shares: 57,681,498 fully paid ordinary shares
Interests in options: Nil
Interests in rights: Nil

Name: Mr Kurtis Rintala
Title: Co-Founder, Executive Director and Chief Operating Officer
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
Interests in options: Nil
Interests in rights: Nil

engage:BDR Limited
Directors' report
31 December 2019

Name: Mr Tom Anderson
Title: Non-Executive Director
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
Interests in options: Nil
Interests in rights: Nil

engage:BDR Limited
Directors' report
31 December 2019

Name: Mr Darian Pizem
Title: Non-Executive Director
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 equipment, 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
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

'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.

engage:BDR Limited
Directors' report
31 December 2019

Company secretary
Ms. Melanie Leydin (appointed on 11 July 2019)

Ms Leydin has 25 years' experience in the accounting profession including 13 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. She is a Chartered Accountant and a Registered Company Auditor. Since February 2000, she has been the principal of Leydin Freyer, specialising in outsourced company secretarial and financial duties.

Mr. Justin Mouchacca (resigned on 11 July 2019)

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.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 31 December 2019, and the number of meetings attended by each director were:

	Full Board	
	Attended	Held
Ted Dhanik	7	7
Kurtis Rintala	7	7
Tom Anderson	2	7
Darian Pizem	7	7
Robert Antulov	7	7

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

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
- Share-based compensation
- 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

engage:BDR Limited
Directors' report
31 December 2019

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.

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.

engage:BDR Limited
Directors' report
31 December 2019

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)
- Robert Antulov (Non-Executive Director)
- Youqi Li (Chief Technology Officer)
- Andy Dhanik (Chief Revenue Officer)
- Denys Kravchenko (Chief Technology Officer - AdCel)

Amounts of remuneration

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

2019	Short-term benefits			Post-employment benefits	Share-based payments	Total
	Cash salary and fees	Commission /bonus (a)	Non-monetary	Defined-contribution plan	Equity-settled	
	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>						
Tom Anderson	64,015	-	-	-	-	64,015
Robert Antulov	40,000	-	-	-	-	40,000
Darian Pizem	58,599	-	-	-	-	58,599
<i>Executive Directors:</i>						
Ted Dhanik (a)	337,789	340,664	-	-	-	678,453
Kurtis Rintala	337,789	-	-	-	-	337,789
<i>Other Key Management Personnel:</i>						
Youqi Li	241,483	-	-	-	87,228	328,711
Andy Dhanik (b)	251,545	-	-	-	150,243	401,788
Denys Kravchenko	264,775	-	-	-	43,614	308,389
	<u>1,595,995</u>	<u>340,664</u>	<u>-</u>	<u>-</u>	<u>281,085</u>	<u>2,217,744</u>

(a) Bonus award of \$340,664 to Mr. Ted Dhanik was made for 2019. This bonus was an offset against part of loan accounts. Loan items were special exertions from the board to compensate the Executives for significantly reduced payroll in 2011 and 2013 and applied to outstanding loan balances with no cash paid.

(b) 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.

engage:BDR Limited
Directors' report
31 December 2019

2018	Short-term benefits			Post-employment benefits	Share-based payments	Total
	Cash salary and fees	Commission /bonus	Non-monetary	Defined-contribution plan	Equity-settled	
	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>						
Bruce McMenamin (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
	<u>901,276</u>	<u>930,988</u>	<u>19,619</u>	<u>1,810</u>	<u>-</u>	<u>1,853,693</u>

(a) Mr McMenamin 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.

engage:BDR Limited
Directors' report
31 December 2019

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

Name	Fixed remuneration		STI - sales commission		Share based payments	
	2019	2018	2019	2018	2019	2018
<i>Non-Executive Directors:</i>						
Tom Anderson	100%	100%	-	-	-	-
Bruce McMenamin	-	100%	-	-	-	-
Ron Phillips	-	100%	-	-	-	-
Robert Antulov	100%	100%	-	-	-	-
Darian Pizem	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
Ted Dhanik	100%	100%	-	-	-	-
Kurtis Rintala	100%	100%	-	-	-	-
<i>Other Key Management Personnel:</i>						
Youqi Li*	73%	-	-	-	27%	-
Andy Dhanik	63%	48%	-	52%	37%	-
Denys Kravchenko*	86%	-	-	-	14%	-

* These employees are considered as key management personnel for 2019 financial year 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.

engage:BDR Limited
Directors' report
31 December 2019

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.

Name: Youqi Li
Title: Chief Technology Officer
Agreement commenced: 27 August 2015
Term of agreement: Ongoing
Details: Mr Li receives an remuneration package including salary and pension of AUD\$249,785 (USD\$175,000) per annum. Payment of a benefit on early termination by the Group without cause is equal to 2 months' base salary.

Notice period - 6 months

engage:BDR Limited
Directors' report
31 December 2019

Name: Andy Dhanik
Title: Chief Revenue Officer
Agreement commenced: 1 March 2014
Term of agreement: Ongoing
Details: Mr Dhanik receives an remuneration package including salary and pension of AUD\$249,785 (USD\$175,000) per annum. Payment of a benefit on early termination by the Group without cause is equal to 2 months' base salary.

Notice period - 6 months

Name: Denys Kravchenko
Title: Chief Technology Officer (AdCel)
Agreement commenced: 27 July 2018
Term of agreement: Ongoing
Details: Mr Kravchenko receives an remuneration package including salary and pension of AUD\$256,922 (USD\$180,000) per annum. Payment of a benefit on early termination by the Group without cause is equal to 2 months' base salary.

Notice period - 6 months

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

Share-based compensation

Issue of shares

Details of shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2019 are set out below:

Name	Date	Shares	Deemed Issue price	\$AUD
Youqi Li	7 May 2019	681,857	\$0.042	28,638
Youqi Li	9 August 2019	868,244	\$0.034	29,520
Youqi Li	20 December 2019	1,321,353	\$0.022	29,070
Andy Dhanik	19 March 2019	680,072	\$0.031	21,082
Andy Dhanik	8 April 2019	449,886	\$0.047	21,145
Andy Dhanik	18 April 2019	426,354	\$0.049	20,891
Andy Dhanik	7 May 2019	511,393	\$0.042	21,479
Andy Dhanik	10 July 2019	335,970	\$0.043	14,447
Andy Dhanik	9 August 2019	651,183	\$0.034	22,140
Andy Dhanik	20 December 2019	1,321,353	\$0.022	29,070
Denys Kravchenko	7 May 2019	340,929	\$0.042	14,319
Denys Kravchenko	9 August 2019	434,122	\$0.034	14,760
Denys Kravchenko	20 December 2019	660,673	\$0.022	14,535

Options

There were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 31 December 2019.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 31 December 2019.

engage:BDR Limited
Directors' report
31 December 2019

Additional information

The earnings of the consolidated entity for the five years to 31 December 2019 are summarised below:

	2019 \$	2018 \$	2017 \$	2016* \$	2015* \$
Sales revenue	17,079,118	11,443,935	13,135,970	21,845,216	36,919,027
EBITDA Operating profit/(loss)	1,604,732	(6,286,229)	(7,098,066)	(1,455,961)	(2,491,012)
Loss before income tax expense	(1,343,429)	(10,839,127)	(9,583,419)	(2,927,728)	(3,302,832)
Loss after income tax expense	(1,343,429)	(10,840,198)	(10,566,001)	(3,671,811)	(3,302,832)

* 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	Disposals	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
Youqi Li	1,500,000	2,871,454	-	-	4,371,454
Andy Dhanik	3,000,000	4,376,211	-	(4,180,000)	3,196,211
Denys Kravchenko	2,885,904	1,435,727	-	(2,885,904)	1,435,727
	<u>100,718,665</u>	<u>8,683,392</u>	<u>-</u>	<u>(7,065,904)</u>	<u>102,336,153</u>

Loans to key management personnel and their related parties

As at 31 December 2019 the Group recognised a loan receivable for funds payable by Mr Ted Dhanik (USD\$1,191,163; AUD\$1,700,204) (2018: USD\$1,313,754; AUD\$1,864,598) and Mr Andy Dhanik (USD\$65,277; AUD\$93,173) (2018: USD\$71,060; AUD\$100,855).

From 1 July 2019, Loans to directors and key management personnel were charged interest at a simple interest rate of 5% per annum, calculated monthly. This interest rate is consistent with local interest rates charged for secured personal debt. For the year ended 31 December 2019, loans given to Mr Ted Dhanik and Mr Andy Dhanik accrued an interest of AUD\$35,708 and AUD\$1,815 respectively. The loans made to both directors and key management personnel are repayable by 31 August 2020. These have been disclosed as current receivables. \$1,267,785 outstanding loans are secured against each individuals' shareholding and will be settled in cash. All loans were approved by the Board of Directors of the Group.

This concludes the remuneration report, which has been audited.

engage:BDR Limited
Directors' report
31 December 2019

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	29,999,993
8 March 2019	22 December 2020	\$0.250	4,000,000
29 January 2019	26 January 2022	\$0.052	8,676,093
25 September 2019	30 September 2022	\$0.026	<u>13,750,000</u>
			<u>56,426,086</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 2019 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

There were no non-audit services provided during the financial year by the current auditor.

Officers of the Company who are former partners of William Buck Audit (Vic) Pty Ltd

There are no officers of the Company who are former partners of William Buck Audit (Vic) Pty Ltd.

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.

engage:BDR Limited
Directors' report
31 December 2019

Restatement of prior year comparative balances

The settlement of amount owing to legacy creditors were previously disclosed as other income. This has been reclassified as an offset against cost of sales in 2019 financial year. As such, the settlement amount of \$3,264,585 were credited against cost of sales in the statement of profit or loss and other comprehensive income. The comparative numbers have been restated. \$1,485,384 was credited against cost of sales and a corresponding adjustment was made to other income.

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

20 March 2020

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF ENGAGE:BDR LIMITED

I declare that, to the best of my knowledge and belief during the year ended 31 December 2019 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck

William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136



N.S. Benbow
Director

Melbourne, 20 March 2020

ACCOUNTANTS & ADVISORS

Level 20, 181 William Street
Melbourne VIC 3000

Telephone: +61 3 9824 8555

williambuck.com

engage:BDR Limited
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2019

	Note	Consolidated 2019 \$	2018 \$
Revenue from contracts with customers	5	17,079,118	11,443,935
Cost of sales		<u>(7,794,937)</u>	<u>(5,632,553)</u>
		9,284,181	5,811,382
Other income		89,441	113,765
Expenses			
Employee and contractor costs	6	(2,684,608)	(5,997,039)
Operations and administration expense	7	(4,891,711)	(5,391,180)
Advertising and marketing expense		(109,301)	(269,667)
Other expenses		<u>(83,270)</u>	<u>(553,490)</u>
EBITDA Operating profit/(loss)		1,604,732	(6,286,229)
Depreciation and amortisation expense		(882,335)	(2,615,491)
Impairment losses		(140,004)	(1,290,445)
Share based payment expense		(327,536)	(284,281)
Finance costs		<u>(1,598,286)</u>	<u>(362,681)</u>
Loss before income tax expense		(1,343,429)	(10,839,127)
Income tax expense		-	(1,071)
Loss after income tax expense for the year attributable to the owners of engage:BDR Limited		(1,343,429)	(10,840,198)
Other comprehensive loss			
<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		(77,977)	(511,767)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		<u>(688,546)</u>	<u>(313,039)</u>
Other comprehensive loss for the year, net of tax		<u>(766,523)</u>	<u>(824,806)</u>
Total comprehensive loss for the year attributable to the owners of engage:BDR Limited		(2,109,952)	(11,665,004)
		Cents	Cents
Basic loss per share	24	(0.26)	(4.03)
Diluted loss per share	24	(0.26)	(4.03)

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

engage:BDR Limited
Statement of financial position
As at 31 December 2019

	Note	Consolidated	
		2019	2018
		\$	\$
Assets			
Current assets			
Cash and cash equivalents	8	1,831,673	320,276
Trade and other receivables	9	5,786,531	2,026,138
Investments in equity instruments		51,692	114,314
Prepaid expenses		392,622	281,831
Related party receivables	20	2,311,510	2,229,032
Other assets	10	1,383,616	-
Total current assets		11,757,644	4,971,591
Non-current assets			
Investments in equity instruments		-	50,640
Property, plant and equipment		268,811	299,497
Right-of-use assets		401,619	-
Capitalised software costs	11	3,032,083	2,519,265
Goodwill	12	1,468,517	1,455,522
Total non-current assets		5,171,030	4,324,924
Total assets		16,928,674	9,296,515
Liabilities			
Current liabilities			
Trade and other payables	13	5,896,438	12,447,393
Borrowings	14	6,791,258	2,598,440
Lease liabilities		222,218	292,285
Employee benefits		-	52,410
Contract liabilities		81,518	409,074
Total current liabilities		12,991,432	15,799,602
Non-current liabilities			
Lease liabilities		29,572	105,760
Total non-current liabilities		29,572	105,760
Total liabilities		13,021,004	15,905,362
Net assets/(liabilities)		3,907,670	(6,608,847)
Equity			
Issued capital	15	35,582,304	20,025,656
Share based payment reserve		603,739	3,533,918
Equity investment reserve		(2,441,343)	(2,363,366)
Foreign currency translation reserve		(787,307)	(98,761)
Accumulated losses		(29,049,723)	(27,706,294)
Total equity/(deficiency)		3,907,670	(6,608,847)

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

engage:BDR Limited
Statement of changes in equity
For the year ended 31 December 2019

Consolidated	Issued capital \$	Share based payment reserve \$	Equity investment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total deficiency in equity \$
Balance at 1 January 2018	15,665,594	3,533,918	-	214,278	(18,717,695)	696,095
Adjustment for change in accounting policy	-	-	(1,851,599)	-	1,851,599	-
Balance at 1 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 income 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 15)	4,360,062	-	-	-	-	4,360,062
Balance at 31 December 2018	<u>20,025,656</u>	<u>3,533,918</u>	<u>(2,363,366)</u>	<u>(98,761)</u>	<u>(27,706,294)</u>	<u>(6,608,847)</u>

Consolidated	Issued capital \$	Share based payment reserve \$	Equity investment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2019	20,025,656	3,533,918	(2,363,366)	(98,761)	(27,706,294)	(6,608,847)
Loss after income tax expense for the year	-	-	-	-	(1,343,429)	(1,343,429)
Other comprehensive income for the year, net of tax	-	-	(77,977)	(688,546)	-	(766,523)
Total comprehensive income for the year	-	-	(77,977)	(688,546)	(1,343,429)	(2,109,952)
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs (note 15)	12,334,314	-	-	-	-	12,334,314
Share-based payments (note 25)	-	292,155	-	-	-	292,155
Transfer of legacy investor options to issued capital	3,222,334	(3,222,334)	-	-	-	-
Balance at 31 December 2019	<u>35,582,304</u>	<u>603,739</u>	<u>(2,441,343)</u>	<u>(787,307)</u>	<u>(29,049,723)</u>	<u>3,907,670</u>

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

engage:BDR Limited
Statement of cash flows
For the year ended 31 December 2019

	Note	Consolidated 2019 \$	2018 \$
Cash flows from operating activities			
Loss before income tax expense for the year		(1,343,429)	(10,839,127)
Adjustments for:			
Depreciation and amortisation		882,335	2,615,491
Share-based payments		327,536	712,205
Impairment losses		140,004	1,290,445
Accrued finance charges		1,598,286	362,681
Executive bonuses used to offset related party debt		337,127	679,929
Interest income from related party debt		(78,285)	(63,025)
		<u>1,863,574</u>	<u>(5,241,401)</u>
Change in operating assets and liabilities:			
(Increase)/decrease in trade and other receivables		(3,760,393)	852,300
(Increase)/decrease in prepayments		(174,922)	276,958
Decrease in trade and other payables		(1,045,034)	(4,235,367)
Increase in contract liabilities		81,518	-
		<u>(3,035,257)</u>	<u>(8,347,510)</u>
Finance charges paid		(754,997)	(245,723)
Income taxes paid		-	(1,071)
		<u>(3,790,254)</u>	<u>(8,594,304)</u>
Cash flows from investing activities			
Proceeds from release of security deposits		28,567	-
Purchase of property, plant and equipment		-	(42,910)
Capitalised software development		(1,471,447)	(405,829)
Loans to related parties (shareholders)		(337,503)	(329,432)
Acquisition of subsidiary - cash acquired		-	115,120
		<u>(1,780,383)</u>	<u>(663,051)</u>
Cash flows from financing activities			
Proceeds from capital raises	15	702,784	2,211,700
Cost of capital raise		(8,222)	(120,000)
Proceeds from borrowings		8,092,379	1,150,983
Repayment of borrowings		(1,336,444)	(87,138)
Repayment of lease liabilities		(357,165)	(693,846)
		<u>7,093,332</u>	<u>2,461,699</u>
Net cash from financing activities			
Net increase/(decrease) in cash and cash equivalents		1,522,695	(6,795,656)
Cash and cash equivalents at the beginning of the financial year		320,276	7,274,894
Effects of exchange rate changes on cash and cash equivalents		(11,298)	(158,962)
		<u>(11,298)</u>	<u>(158,962)</u>
Cash and cash equivalents at the end of the financial year	8	<u><u>1,831,673</u></u>	<u><u>320,276</u></u>

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

Note 1. General 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) and AdCel LLC collectively referred to as 'the Group' or 'engage:BDR'. The financial report is for the year ended 31 December 2019 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 Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office	Principal place of business
Scottish House Level 4 90 William Street Melbourne Victoria 3000 Australia	8439 W Sunset Boulevard Suite 302 West Hollywood California 90069 USA

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial report.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 20 March 2020. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

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 derivative financial liabilities at fair value through profit or loss.

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 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 21.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of engage:BDR Limited ('company' or 'parent entity') as at 31 December 2019 and the results of all subsidiaries for the year then ended. engage:BDR Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Note 2. Significant accounting policies (continued)

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity 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.

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.

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.

Going concern

The financial report has been prepared on a going concern basis, which takes into account the net current liabilities of \$1,233,788 and negative operating cash flows of \$3,790,254 for the year ended 31 December 2019.

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

During the year ended 31 December 2019, the Group improved its net asset position by settling legacy creditors by a way of share issues. The Group also raised additional working capital through a share purchase plan from existing professional and sophisticated investors and zero coupon convertible amortising securities ("ZCSs") (Refer to note 14). As at the date of this report the directors have assessed that the Group continues to comply with the covenants set under its financing arrangements with its debtor factoring facility and those set by Alto Capital.

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 2020 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 settle ZCS note and outstanding creditors via share issue, instead of cash payments;
- Repayment of some or all of secured related party loan receivables;
- The Group's ability, if required, to seek the support from its founders and major shareholders for the further injection of capital; and
- Its ability to exercise control over discretionary operational cash outflows.

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.

Note 2. Significant accounting policies (continued)

Foreign currency translation

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 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.

Foreign currency 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).

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.

New standards, interpretations and amendments adopted by the Group

AASB 16 Leases

AASB 16 is applicable for annual reporting periods commencing on or after 1 January 2019. As from 1 January 2019, the Group has adopted AASB 16 in respect to Leases. AASB 16 supersedes AASB 117 Leases and eliminates the classifications of operating leases and finance leases. Subject to exceptions, a 'Right-of-Use' asset and a related lease liability will be recognised in the statement of financial position at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset. The lease liability is initially recognised at the present value of the non-cancellable lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred. The exceptions to AASB 16 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 choice exists whereby either a right-of-use asset is recognised or lease payments are expensed to profit or loss as incurred.

Note 2. Significant accounting policies (continued)

The unwind of the financial charge on the lease liability and the depreciation of the leased asset are recognised in the statement of comprehensive income. Expenses in respect of leases include depreciation of the right-of-use and interest expense in respect of the lease liability. Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any premeasurement of lease liabilities. Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

The Group has applied the modified retrospective method of adoption with the date of initial application at 1 January 2019, and therefore the comparative information has not been restated and continues to be reported under the preceding standard, AASB 117. On transition to AASB 16, the Group recognised an additional \$281,229 of right-of-use assets and \$281,229 of lease liabilities. The Group has recognised a depreciation charge during the period of \$64,515 in relation to depreciation of the right-of-use asset, and additional finance costs of \$5,324 due to interest expense on the lease liability.

When measuring lease liabilities, the Group discounted the lease payments using an estimated incremental borrowing rate date of initial application of AASB 16. The rate applied was 5.50%.

AASB Interpretation 23 Uncertainty over Income Tax Treatments

Interpretation 23 requires the assessment of whether the effect of uncertainty over income tax treatments should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The Interpretation outlines the requirements to determine whether an entity considers uncertain tax treatments separately, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances.

The Group has adopted Interpretation 23 from 1 January 2019, based on an assessment of whether it is 'probable' that a taxation authority will accept an uncertain tax treatment. This assessment takes into account that for certain jurisdictions in which the Group operates, a local tax authority may seek to open a company's books as far back as inception of the Group. Where it is probable, the Group has determined tax balances consistently with the tax treatment used or planned to be used in its income tax filings. Where the Group has determined that it is not probable that the taxation authority will accept an uncertain tax treatment, the most likely amount or the expected value has been used in determining taxable balances (depending on which method is expected to better predict the resolution of the uncertainty). There has been no impact from the adoption of Interpretation 23 in this reporting period.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2019. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 3. Critical accounting judgements, estimates and assumptions

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.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Classification of settlement of amount owing to creditors

The settlement of amount owing to legacy creditors were previously disclosed as other income. This has been reclassified as an offset against cost of sales in 2019 financial year. As such, the settlement amount of \$3,264,585 were credited against cost of sales in the statement of profit or loss and other comprehensive income. The comparative numbers have been restated. \$1,485,384 was credited against cost of sales and a corresponding adjustment was made to other income.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Capitalisation of software costs

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.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates. The recoverability of related party loans are also assessed. The balances are being paid down in accordance with the terms and conditions. The loans are secured against each individuals' shareholding.

Goodwill

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 12. The recoverable amounts of cash-generating units have been determined based on fair value less costs approach, by comparing of the market capitalisation of the Group to its net assets, adjusted for control premium.

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.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The directors have determined that the losses to date do not validate the requirement to book any DTA for carry forward losses and will consider the recognition of DTAs in future periods.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Valuation of embedded derivatives on convertible notes

The Group entered into an agreement with Alto Opportunity Master Fund SPC - Segregated Master Portfolio B ("Alto") for the issue of zero coupon convertible amortising securities ("ZCSs"). The fair value of the embedded derivative was determined in line with AASB 132 and AASB 9. The future share price of the Group was projected using a Geometric Brownian Motion model for each possible trading day of the amortisation period, with the volatility of each step representing the daily volatility of the Group's share price over the last year from the valuation date.

A Monte Carlo simulation of 40,000 simulations was conducted for the Geometric Brownian Motion model to obtain theoretical share prices for each amortisation period. This was used to determine the Conversion Discount between the closing share price and the conversion price. The average Conversion Discount represents the fair value of the embedded derivative.

Note 4. Operating segments

In previous year the Group had assessed its operations to comprise of two reportable segments – being programmatic and collaborative marketing 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 collaborative marketing) they have been combined and shown together (refer note 5).

Geographic information

	Consolidated	
	2019	2018
	\$	\$
Australia	438	365
United State of America	15,994,144	10,640,639
Other*	1,084,536	802,931
Total revenue from contract with customers	<u>17,079,118</u>	<u>11,443,935</u>

* No other single country represents greater than 10% of the Group's total revenue.

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.

	Consolidated	
	2019	2018
	\$	\$
Customer and segment		
Customer A - Programmatic	<u>14,349,414</u>	<u>8,959,984</u>

Accounting policy for operating segments

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.

Note 5. Revenue from contracts with customers

	Consolidated	
	2019	2018
Revenue from contracts with customers - Rendering of services	17,079,118	11,443,935

Note 5. Revenue from contracts with customers (continued)

Disaggregation of revenue

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

	Consolidated	
	2019	2018
	\$	\$
Programmatic	16,429,753	9,899,458
Collaborative marketing	649,365	1,544,477
	<u>17,079,118</u>	<u>11,443,935</u>
<i>Geographical regions</i>		
Australia	438	365
United States of America	15,994,144	10,640,639
Other*	1,084,536	802,931
	<u>17,079,118</u>	<u>11,443,935</u>
<i>Timing of revenue recognition</i>		
Services rendered at a point in time	<u>17,079,118</u>	<u>11,443,935</u>

*No other single country represents greater than 10% of the Group's total revenue.

Accounting policy for revenue from contracts with customers

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.

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

Note 5. Revenue from contracts with customers (continued)

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.

Note 6. Employee and contractor costs

	Consolidated	
	2019	2018
	\$	\$
Salary costs	2,747,590	5,609,135
Defined contribution plan (401(k))	2,336	39,054
Other payroll-related expenses	(65,318)	348,850
	<u>2,684,608</u>	<u>5,997,039</u>
Total employee and contractor costs	<u>2,684,608</u>	<u>5,997,039</u>

Accounting policy for employee benefits

Wages and salaries, vested 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.

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.

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.

Note 7. Operations and administration expense

	Consolidated	
	2019	2018
	\$	\$
Technology infrastructure and software costs	1,464,075	1,049,672
Legal and accounting expense	1,201,274	1,105,685
Technical and corporate development expense	593,797	656,921
Bad debt expense	296,404	461,063
Travel expenses	396,086	648,799
Office and other rental expenditure	339,433	565,261
Municipal and other taxes	65,067	150,337
Insurance expense	487,208	479,807
Other operations and administration expenses	48,367	273,635
	<u>4,891,711</u>	<u>5,391,180</u>

Note 8. Current assets - cash and cash equivalents

	Consolidated	
	2019	2018
	\$	\$
Cash at bank	<u>1,831,673</u>	<u>320,276</u>

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 9. Current assets - trade and other receivables

	Consolidated	
	2019	2018
	\$	\$
Trade receivables [1]	6,230,040	2,387,919
Less: Allowance for expected credit losses	<u>(459,615)</u>	<u>(489,173)</u>
	5,770,425	1,898,746
Other receivables	<u>16,106</u>	<u>127,392</u>
	<u>5,786,531</u>	<u>2,026,138</u>

[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 (refer note 14). 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.

Note 9. Current assets - trade and other receivables (continued)

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 \$4,213,186 (December 2018: \$1,048,731). This arrangement has no expiration date with an interest rate of 8.00%.

Allowance for expected credit losses

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

Consolidated	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2019	2018	2019	2018	2019	2018
	%	%	\$	\$	\$	\$
Not overdue	1%	1%	4,018,586	1,532,827	40,186	15,328
0 to 30 days	5%	5%	1,690,047	82,235	84,502	4,112
31 to 60 days	15%	11%	10,231	41,950	1,535	4,615
61 to 90 days	30%	30%	34,433	49,365	10,330	14,810
Over 91 days	68%	65%	476,743	681,542	324,185	443,002
			<u>6,230,040</u>	<u>2,387,919</u>	<u>460,738</u>	<u>481,867</u>

The average age of the Group's trade receivables is 133 days (2018: 173 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 customer base being large and unrelated. Accordingly, the Directors believe that there is no further provision required in excess of the provision for doubtful debts

Movements in the allowance for expected credit losses are as follows:

	Consolidated	
	2019	2018
	\$	\$
Opening balance	(489,173)	(340,655)
Impairment recognised during the year	(321,205)	(461,063)
Amounts written off as uncollectible	364,392	355,996
Exchange difference	(13,629)	(43,451)
Closing balance	<u>(459,615)</u>	<u>(489,173)</u>

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.

Accounting policy for 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.

Note 10. Current assets - other assets

	Consolidated	
	2019	2018
	\$	\$
Security deposits	35,564	-
Shares held in trust*	1,348,052	-
	<u>1,383,616</u>	<u>-</u>

*Share held in trust refers to fully paid ordinary shares issued to a third party which is to be used for settlement of creditor obligations of the Group.

Note 11. Non-current assets - capitalised software costs

	Consolidated	
	2019	2018
	\$	\$
Capitalised software costs	7,628,752	6,158,244
Less: Accumulated amortisation	(4,596,669)	(3,638,979)
	<u>3,032,083</u>	<u>2,519,265</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Capitalised software costs \$	Non-compete clause \$	Total \$
Balance at 1 January 2018	3,543,983	429,777	3,973,760
Additions	585,277	-	585,277
Additions through business combinations	1,142,040	-	1,142,040
De-recognition of ineligible projects	(153,470)	-	(153,470)
Exchange differences	326,532	-	326,532
Impairment of assets	(999,029)	(291,417)	(1,290,446)
Amortisation expense	(1,926,068)	(138,360)	(2,064,428)
Balance at 31 December 2018	2,519,265	-	2,519,265
Additions	1,461,157	-	1,461,157
Exchange differences	4,124	-	4,124
Amortisation expense	(952,463)	-	(952,463)
Balance at 31 December 2019	<u>3,032,083</u>	<u>-</u>	<u>3,032,083</u>

Software 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 and 10 years, with a weighted average of 3 years (2018: 3 years). Impairment of capitalised software costs is considered at each reporting period.

The review of the business did not identify any impairment of any intangible assets following consideration of indicators of impairment under AASB 136. As at the year ended 31 December 2019, 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.

Note 11. Non-current assets - capitalised software costs (continued)

Accounting policy for capitalised software 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 *software* costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3- 10 years.

Note 12. Non-current assets - goodwill

	Consolidated	
	2019	2018
	\$	\$
Goodwill	<u>1,468,517</u>	<u>1,455,522</u>

In assessing for impairment, the Directors considered goodwill in the context of the Group having one cash-generating unit, being Ad media. On that basis, they have assessed impairment applying the fair value less costs to sell method. In making this assessment, the Directors note the following:

- Market capitalisation of the group as at 31 December 2019 was \$15,672,689.
- 20% control premium was factored into the analysis, then compared with net assets of \$3,410,208.

It was concluded that the fair value less cost to sell was greater than the net assets in the cash generating unit, thus no impairment was recognised for the year ending 31 December 2019.

Accounting policy for 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.

Note 13. Current liabilities - trade and other payables

	Consolidated	
	2019	2018
	\$	\$
Trade payables	4,949,747	9,115,785
Credit card liabilities	13,852	441,173
Accrued expenses	705,517	1,243,575
Accrued payroll liabilities	19,527	237,757
Bonus and commissions payable	112,255	238,696
Accrued municipal tax	95,540	115,350
Deferred consideration payable for acquisition of business	-	1,055,057
	<u>5,896,438</u>	<u>12,447,393</u>

Refer to note 16 for further information on financial instruments.

Accounting policy for 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.

Note 14. Current liabilities - borrowings

	Consolidated	
	2019	2018
	\$	\$
Debtor factoring borrowings	4,213,186	2,598,440
Convertible notes payable	1,516,403	-
Embedded derivative on convertible notes	857,808	-
Other borrowings	203,861	-
	<u>6,791,258</u>	<u>2,598,440</u>

Refer to note 16 for further information on financial instruments.

On 23 September 2019, the Company entered into an agreement with Alto Opportunity Master Fund SPC – Segregated Master Portfolio B (“the Investor”) for the issue of zero coupon convertible amortising securities (“ZCSs”), under an initial drawdown and up to 7 further drawdowns.

On 25 September 2019 the Company undertook the initial drawdown of a ZCS with a face value of US\$2,060,000 (approximately A\$3,038,000 000 at the exchange rate at drawdown date) and an issue price of US\$1,750,000 (approximately A\$2,580,000 at the exchange rate at drawdown date). The ZCS has a maturity of one year after drawdown.

On 25 September 2019, the Company issued 28.5 million new collateral shares to Alto as security for the ZCS.

During the half year ended, the Company made two instalment repayments of the ZCS, one by a cash payment of US\$176,817 (A\$260,000) and one by a transfer of 16,372,594, from the balance of collateral shares, with a total value of US\$176,817 (A\$295,000), based on a share allocation price equal to 85% of the average of the 2 lowest daily VWAPs for the preceding 20 trading days.

During the period the Group issued convertible notes with conversion clauses that were variable. At initial recognition an embedded derivative is recognised on the statement of financial position at fair value and that embedded derivative is subsequently recorded at its fair value thereafter, with changes in fair value going through to the statement of profit or loss and other comprehensive income. The difference between the consideration received (net of costs) and the embedded derivative is reflected in the principal value of the convertible note liability. The underlying debt principal is amortised back to its face value at maturity, net of transaction costs, using the effective interest rate method.

Note 15. Equity - issued capital

	Consolidated			
	2019	2018	2019	2018
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>712,394,973</u>	<u>288,604,744</u>	<u>35,582,304</u>	<u>20,025,656</u>

Note 15. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Shares	\$
Balance as at 1 January 2018	249,699,958	15,665,594
Shares issued to convertible note holders – principal and interest	2,745,721	431,612
Shares issued to convertible note holders – additional	484,539	124,882
Shares issued during capital raise, net of fees	12,500,000	1,880,000
Shares issued for consulting fees	2,250,000	360,000
Shares issued during Share Purchase Plan	1,294,375	204,350
Shares issued in relation to AdCel acquisition	11,071,951	1,007,013
Shares issued to AdCel executives	5,458,200	352,205
Share issued as collateral for Loan note	3,100,000	-
Balance as at 31 December 2018	288,604,744	20,025,656
Share issued for purchase plan	25,099,423	702,784
Shares issued as collateral for loan note	30,400,000	-
Shares issued to convertible note holders	120,825,721	2,825,962
Shares issued for consulting fees	2,589,300	74,054
Shares issued for outstanding creditors	225,233,705	6,922,317
Shares issued for AdCel acquisition	10,657,140	1,055,057
Shares issued for settlement of employee bonuses	8,984,940	234,135
Collateral shares exercised	-	528,227
Transfer from share based payment reserve	-	3,222,334
Cost of capital raising	-	(8,222)
Balance as at 31 December 2019	<u>712,394,973</u>	<u>35,582,304</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

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.

Share buy-back

There is no current on-market share buy-back.

Accounting policy for issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 16. Financial instruments

Financial risk management objectives

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.

Note 16. Financial instruments (continued)

The Group holds the following financial instruments:

	Consolidated	
	2019	2018
	\$	\$
Financial assets		
Cash and cash equivalents	1,831,673	320,276
Trade and other receivables	5,786,531	2,026,441
Related party receivables	2,311,518	2,637,326
Investments in equity instruments	51,692	114,314
Total	<u>9,981,414</u>	<u>5,098,357</u>
Financial liabilities		
Trade and other payables - current	5,882,586	10,305,181
Credit card liabilities	13,852	441,173
Current portion of lease liability	222,218	292,285
Non-current portion of lease liability	29,572	105,760
Borrowings - due to factor - current	4,213,186	1,048,731
Borrowings - current	203,861	1,549,708
Convertible notes payable	1,516,403	-
Embedded derivative on convertible notes	857,808	-
Deferred payable	-	1,055,057
Total	<u>12,939,486</u>	<u>14,797,895</u>

Market risk

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.

With the exception of financial assets worth AUD\$35,223 and financial liabilities worth AUD\$2,887,568 denominated in \$AUD and other currencies, all other financial assets and liabilities of the Group were denominated in \$USD.

There is no material sensitivity to the profit and loss arising from changes in foreign exchange rates, given translation differences are accounted for in the foreign currency translation reserves.

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.

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 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 (refer note 20).

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.

Note 16. Financial instruments (continued)

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.

2019	Drawn \$	Undrawn \$	Total \$
Fixed rate			
Debtor factoring borrowings (a)	4,213,186	-	4,213,186
Convertible notes (b)	2,497,859	34,970,026	37,467,885
	<u>6,711,045</u>	<u>34,970,026</u>	<u>41,681,071</u>

(a) 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. This arrangement has no expiration date with an interest rate of 8.00%.

(b) Convertible notes were issued on 19 September 2019. Face value of drawn portion is US\$2,060,000 (AU\$2,940,336). The face value of total undrawn is US\$28,840,000 (AU\$41,164,716). The convertible notes expire on 30 November 2020.

2018	Drawn \$	Undrawn \$	Total \$
Fixed rate			
Loan Notes*	880,938	1,064,468	1,945,406
Convertible notes	-	4,798,991	4,798,991
Total	<u>880,938</u>	<u>5,863,459</u>	<u>6,744,397</u>

* 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. As of 31 December 2019 these have been fully paid.

Note 16. Financial instruments (continued)

(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 \$	Remaining contractual maturities \$
Consolidated - 2019					
Trade and other payables	5,882,586	-	-	-	5,882,586
Credit card liabilities	13,852	-	-	-	13,852
Borrowings - Due to factor*	4,216,126	-	-	-	4,216,126
Convertible notes payable**	1,424,527	949,684	-	-	2,374,211
Borrowings (principal) - Promissory notes	55,349	-	-	-	55,349
Borrowings - Other	148,512	-	-	-	148,512
Total non-derivatives	11,740,952	949,684	-	-	12,690,636

* Borrowings represent the advances recorded against certain receivables balances which are factored under the facility.

** Convertible note balance comprised of the principal and interest payable the Group entered in on 19 September 2019. The convertible note expires on 18 November 2020.

	Less than 6 months \$	Between 6 and 12 months \$	Between 1 and 2 years \$	Between 2 and 3 years \$	Remaining contractual maturities \$
Consolidated - 2018					
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	668,770	-	-	-	668,770
Loan notes	880,938	-	-	-	880,938
Deferred payable	1,055,057	-	-	-	1,055,057
Total non-derivatives	15,452,015	2,892	-	-	15,454,907

(iii) Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

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 has an ASX-imposed restriction of 15% of total share capital per annum on the amount of share capital it can issue under a placement, which may be increased by a further 10% under a special resolution put to shareholders at its general meetings.

Note 17. Fair value measurement

The Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Note 17. Fair value measurement (continued)

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Unobservable inputs for the asset or liability

With the exception of embedded derivatives which is measured using level 2 inputs (refer note 3), all other major financial assets and liabilities are measured using level 1 inputs.

Accounting policy for 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 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.

Note 18. Key management personnel disclosures

Directors

The following persons were directors of engage:BDR Limited during the financial year:

Mr Ted Dhanik (Executive Chairman and Chief Executive Officer)
Mr Kurtis Rintala (Executive Director and Chief Operating Officer)
Mr Tom Anderson (Non-Executive Director)
Mr Darian Pizem (Non-Executive Director)
Mr Robert Antulov (Non-Executive Director)

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

Mr Youqi Li (Chief Technology Officer)
Mr Andy Dhanik (Chief Revenue Officer)
Mr Denys Kravchenko (Chief Technology Officer - AdCel)

Note 18. Key management personnel disclosures (continued)

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2019	2018
	\$	\$
Short-term employee benefits	1,936,659	1,851,883
Share-based payments	281,085	-
401(k) withholding	-	1,810
	<u>2,217,744</u>	<u>1,853,693</u>

Note 19. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by William Buck Audit (Vic) Pty Ltd, the auditor of the company:

	Consolidated	
	2019	2018
	\$	\$
<i>Audit services - William Buck Audit (Vic) Pty Ltd (2018: BDO East Coast Partnership)</i>		
Audit or review of the financial statements	<u>50,000</u>	<u>70,000</u>

Note 20. Related party transactions

Parent entity

engage:BDR Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 22.

Key management personnel

Disclosures relating to key management personnel are set out in note 18 and the remuneration report included in the directors' report.

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated	
	2019	2018
	\$	\$
Beginning of the year	2,229,032	2,277,582
Loans advanced	337,503	329,432
Bonus awarded to key management personnel offset against loan balances	(337,127)	(672,582)
Interest charged	78,285	63,025
Exchange difference	3,817	231,575
	<u>2,311,510</u>	<u>2,229,032</u>

Note 20. Related party transactions (continued)

Terms and conditions

From 1 July 2019, Loans to directors and key management personnel were charged interest at a simple interest rate of 5% per annum, calculated monthly. This interest rate is consistent with local interest rates charged for secured personal debt. The loans made to both directors and key management personnel are repayable by 31 August 2020. These have been disclosed as current receivables. \$1,267,785 outstanding loans are secured against each individuals' shareholding and will be settled in cash. All loans were approved by the Board of Directors of the Group .

Note 21. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2019	2018
	\$	\$
Loss after income tax	<u>(16,464,271)</u>	<u>(15,694,070)</u>
Total comprehensive income	<u>(16,464,271)</u>	<u>(15,694,070)</u>

Statement of financial position

	Parent	
	2019	2018
	\$	\$
Total current assets	<u>48,244</u>	<u>192,541</u>
Total assets	<u>6,795,238</u>	<u>192,541</u>
Total current liabilities	<u>2,887,568</u>	<u>2,209,371</u>
Total liabilities	<u>2,887,568</u>	<u>2,209,371</u>
Equity		
Issued capital	35,582,304	13,485,689
Share based payment reserve	603,739	311,583
Accumulated losses	<u>(32,278,373)</u>	<u>(15,814,102)</u>
Total equity/(deficiency)	<u><u>3,907,670</u></u>	<u><u>(2,016,830)</u></u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2019 (2018: None).

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2019 (2018: None).

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2019 (2018: None).

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

engage:BDR Limited
Notes to the financial statements
31 December 2019

Note 22. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2019 %	2018 %
engage:BDR LLC	United States of America	100%	100%
Tiveo LLC*	United States of America	100%	100%
AdCel LLC	United States of America	100%	100%

* Tiveo LLC is a wholly owned subsidiary of engage:BDR LLC.

Note 23. Events after the reporting period

On 17 January 2020, the consolidated entity issued 26,975,464 fully paid ordinary shares (Collateral Shares) to Alto at a deemed issue price of \$0.017 (1.7 cents) per share.

On 3 March 2020, the consolidated entity issued 30,420,738 fully paid ordinary shares (Collateral Shares) to Alto at a deemed issue price of \$0.013 (1.3 cents) per share.

On 13 March 2020, the consolidated entity announced a drawdown of a zero coupon convertible amortising security ("ZCS") with a face value of US\$450,000 at an issue price of US\$382,500. The ZCS was issued to Alto Opportunity Master Fund SPC - Segregated Master Portfolio B pursuant to the purchase agreement for ZCS announced by the Company on 23 September 2019.

No other matter or circumstance has arisen since 31 December 2019 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.

Note 24. Earnings per share

	Consolidated	
	2019 \$	2018 \$
Loss after income tax attributable to the owners of engage:BDR Limited	(1,343,429)	(10,840,198)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	515,130,862	269,188,212
Weighted average number of ordinary shares used in calculating diluted earnings per share	515,130,862	269,188,212
	Cents	Cents
Basic loss per share	(0.26)	(4.03)
Diluted loss per share	(0.26)	(4.03)

Accounting policy for earnings per share

Basic earnings per share

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.

Note 24. Earnings per share (continued)

Diluted earnings per share

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 to acquire ordinary shares, are considered non-dilutive and therefore not included in the diluted earnings per share calculation.

Note 25. Share-based payments

During the 2019 financial year, the Group issued the following share options:

- 8,676,093 unlisted options to corporate advisors exercisable at \$0.052, expiring 29 January 2022. The options were vested immediately on issue;
- 4,000,000 listed options as consideration for corporate advisory services, exercisable at \$0.25 (25 cents) per option by 22 December 2020. The options were vested immediately on issue;
- 13,750,000 unlisted options exercisable at \$0.026 (2.6 cents) expiring on 30 September 2022. The options were vested immediately on issue.

Set out below are summaries of options granted under the plan:

2019							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
14/12/2017	14/12/2020	\$0.250	29,999,993	-	-	-	29,999,993
29/01/2019	26/01/2022	\$0.052	-	8,676,093	-	-	8,676,093
08/03/2019	22/12/2020	\$0.250	-	4,000,000	-	-	4,000,000
25/09/2019	30/09/2022	\$0.026	-	13,750,000	-	-	13,750,000
			<u>29,999,993</u>	<u>26,426,093</u>	-	-	<u>56,426,086</u>
Weighted average exercise price			\$0.250	\$0.068	-	-	\$0.165
2018							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
14/12/2017	14/12/2020	\$0.250	-	29,999,993	-	-	29,999,993
			-	29,999,993	-	-	29,999,993
Weighted average exercise price			-	\$0.250	-	-	\$0.250

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2019 Number	2018 Number
14/12/2017	14/12/2020	29,999,993	29,999,993
29/01/2019	26/01/2022	8,676,093	-
08/03/2019	22/12/2020	4,000,000	-
25/09/2019	30/09/2022	13,750,000	-
		<u>56,426,086</u>	<u>29,999,993</u>

Note 25. Share-based payments (continued)

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
29/01/2019	26/01/2022	\$0.038	\$0.052	-	-	-	\$0.015
08/03/2019	22/12/2022	\$0.019	\$0.250	-	-	-	\$0.001
25/09/2019	30/09/2022	\$0.023	\$0.026	-	-	-	\$0.011

During the 2019 financial year, the Group issued fully paid ordinary shares to employees and contractors (refer note 15), the spot price ranging between \$0.021 (2.1 cents) and \$0.051 (5.1 cents) was used to determine the equity value.

Accounting policy for 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 2019 as compensation and has issued shares to a third parties in lieu of services provided.

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 above.

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.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Note 26. Contingent assets and liabilities

The Directors are not aware of any contingent assets or contingent liabilities as at 31 December 2019 (2018: Nil)

Note 27. Changes to unaudited Preliminary Financial Report

On 28 February 2020, the Group released its unaudited preliminary financial report for the year ended 31 December 2019. Upon finalisation of the audit, due to the complexity of the share facility, an adjustment has been made to increase shares held in trust. Consequentially adjustments have been made to impairment losses and foreign currency translation reserve. The Group also made an reallocation between right-of-use assets and property, plant and equipment.

The tables below summaries the impact to statement of profit or loss and other comprehensive income and statement of financial position:

Note 27. Changes to unaudited Preliminary Financial Report (continued)

Statement of profit or loss and other comprehensive income (condensed)	Unaudited Appendix 4E	Adjustment	Audited final report
	\$	\$	\$
Operating profit	1,604,732	-	1,604,732
Depreciation and amortisation expense	(882,335)	-	(882,335)
Impairment losses	-	(140,004)	(140,004)
Share based payment expense	(327,536)	-	(327,536)
Finance costs	(1,598,286)	-	(1,598,286)
Loss after income tax expense	<u>(1,203,425)</u>	<u>(140,004)</u>	<u>(1,343,429)</u>
Other comprehensive loss			
Loss on the revaluation of equity instruments at fair value through other comprehensive income, net of tax	(77,977)	-	(77,977)
Exchange differences on translation of foreign operations	(1,326,012)	637,466	(688,546)
Other comprehensive loss for the year, net of tax	<u>(1,403,989)</u>	<u>637,466</u>	<u>(766,523)</u>
Total comprehensive loss for the year	<u>(2,607,414)</u>	<u>497,462</u>	<u>(2,109,952)</u>
	Appendix 4E	Adjustment	Audited final
	Cents	Cents	report
			Cents
Basic loss per share	(0.23)	(0.03)	(0.26)
Diluted loss per share	(0.23)	(0.03)	(0.26)

Note 27. Changes to unaudited Preliminary Financial Report (continued)

Statement of financial position (condensed)	Unaudited Appendix 4E \$	Adjustments \$	Audited financial report \$
Assets			
Cash and cash equivalents	1,831,673	-	1,831,673
Trade and other receivables	5,786,531	-	5,786,531
Investment in equity instruments	51,692	-	51,692
Prepaid expenses	392,622	-	392,622
Related party receivables	2,311,510	-	2,311,510
Other assets	886,154	497,462	1,383,616
Property, plant and equipment	-	268,811	268,811
Right-of-use assets	670,430	(268,811)	401,619
Intangibles	3,032,083	-	3,032,083
Goodwill	1,468,517	-	1,468,517
Total assets	<u>16,431,212</u>	<u>497,462</u>	<u>16,928,674</u>
Total current liabilities	12,991,432	-	12,991,432
Total non-current liabilities	29,572	-	29,572
Total liabilities	<u>13,021,004</u>	<u>-</u>	<u>13,021,004</u>
Net assets	<u>3,410,208</u>	<u>497,462</u>	<u>3,907,670</u>
Equity			
Issued capital	35,582,304	-	35,582,304
Share based payment reserve	603,739	-	603,739
Equity investment reserve	(2,441,343)	-	(2,441,343)
Foreign currency translation reserve	(1,424,773)	637,466	(787,307)
Accumulated losses	(28,909,719)	(140,004)	(29,049,723)
Total Equity	<u>3,410,208</u>	<u>497,462</u>	<u>3,907,670</u>

engage:BDR Limited
Directors' declaration
31 December 2019

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- 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 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when 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 directors



Ted Dhanik
Co-Founder and Executive Chairman

20 March 2020

engage:BDR Limited

Independent auditor's report to members

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of engage:BDR Limited (the Company) and its controlled entities (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, 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 statements, including a summary of significant accounting policies and other explanatory information, 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 2019 and of its financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Material Uncertainty Relating to Going Concern

We draw attention to Note 2 to the financial report, which describes that as at 31 December 2019 the Group had net current liabilities of \$1,233,788, and for the year then ended incurred net cash outflows from operations of \$3,790,254. These conditions, along with any other matters set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Other Matter

We were appointed as auditor to engage:BDR Limited at their most recent general meeting on 16 January 2020. The comparative results set out in this financial report was audited by another auditor. That auditor expressed an unmodified opinion on the financial report of the Company for the year ended 31 December 2018.

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

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.

DERECOGNITION OF AMOUNTS PAYABLE TO SUPPLIERS	
Area of focus	How our audit addressed it
<p>During the reporting period, the Group extinguished a significant portion of amounts payable to its suppliers. These legacy amounts payable related to invoices that the Group had received from those suppliers, dating back to 2011. Although the Group had fully provided for those invoices in previous financial reports, it had withheld payments set out as owing and payable on those invoices due to disputes with those suppliers relating to a) inaccurate or invalid claims by those suppliers for website traffic (<i>traffic</i> being a key input driving the quantum of the total invoice); and disputed claims with suppliers for other reasons, whereby that supplier had either restructured or re-administered itself so that the supplier, under California State Law no longer has the appropriate corporate authority to transact with and claim amounts that previously it claimed it was owing.</p> <p>During the financial reporting period, management has proactively deleveraged its working capital position over the reporting period by negotiating settlements with its suppliers for some of those outstanding invoices. During the financial reporting period, a total of 191,374,864 shares were issued in order to settle a total of \$6,177,420 in creditor claims. Each settlement of those claims has been referable to the prevailing traded spot price of the Company as at the date of settlement.</p>	<p>Our procedures involved the following:</p> <ul style="list-style-type: none"> • Understanding, through consultation with our own internal specialists and with the Group's legal counsel, how California State Law and US Federal Law applies where claims for payment by suppliers of technology services are under dispute for long periods of time; • Confirming settlements of suppliers to both the issue of shares or payment of cash and the deed of settlement / waiver entered into with each supplier upon settlement; • Confirming major creditor balances and their rolled positions from 31 December 2018 to 31 December 2019; • Discussing with the Group's legal counsel the existence of any further disputed claims and cross-checking those claims with the amounts provided for in amounts payable to suppliers in the statement of financial position; and finally • Recalculating from a sample of settled positions from major creditors any gain on settlement to the statement of profit or loss. <p>We also ensured that these matters were completely and accurately disclosed in the financial statements.</p>

LOANS TO RELATED PARTIES, SHAREHOLDERS AND KEY EMPLOYEES

Area of focus	How our audit addressed it
<p>The Group has a long-established policy of making cash loans to its related parties, shareholders and key employees. Presently interest is charged at on these loans at 5.00% per annum, which is consistent with US market interest rates for similar loans. The loans were made principally to the Group's related parties and key employees in the 2016 and 2017 financial years. Since this date however further additional amounts have been loaned after this date with surplus cash flows as set out in note 20 to the financial statements.</p> <p>As set out in the Replacement Prospectus upon its IPO, the loans were originally expected to mature in June 2018, however this was extended to June 2019, and then, by Directors' resolution to August 2020. Together with the August resolution, a total of \$1,267,785 of the loans were secured against the personal shareholding interests of each loan recipient.</p> <p>The nature and content of these loans have been disclosed both in the financial statements and the accompanying Remuneration Report set out in the Directors' Report, specifically addressing the following matters:</p> <ul style="list-style-type: none"> • The terms and conditions of the loans, including their security, interest rate and maturity features; and • Roll-forward analyses of the loans from the commencement to the end of the year. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Confirming loan balances outstanding to counterparties and substantiating those loans to loan documentation; and • Tracing loan share collateral to the Company's share register and to the Directors' minute collateralising the loan. <p>We also ensured that these matters were completely and accurately disclosed in the financial statements, including, where relevant, the related party disclosures.</p>

ASSESSMENT OF IMPAIRMENT OF INTANGIBLE ASSETS	
Area of focus	How our audit addressed it
<p>The Group holds a total of \$4,500,600 in intangible assets relating to a) its capitalized development projects; and b) goodwill acquired from past acquisitions.</p> <p>Given that the Group holds indefinite-life intangible assets, it is required to test annually for impairment.</p> <p>Consistent with its determination as at 30 June 2019, the Directors and management of the Company now internally evaluate the Group under one reporting segment and one cash-generating unit, and the previous delineation between <i>programmatic</i> and <i>non-programmatic</i> segments (as applied at 31 December 2018) is now assessed by the Chief Operating Decision Maker as one segment.</p> <p>Consequently, the impairment assessment conducted at 31 December 2019 evaluates the Group as one single cash generating unit.</p> <p>In assessing for impairment, the Directors evaluated the carrying value of intangible assets firstly by identifying any indicators of impairment against specific assets (i.e.: software development projects abandoned) and then as a whole against the Group by evaluating its <i>fair value less costs to sell</i>. In applying this methodology, the Directors considered the enterprise value of the Group, being its market capitalisation, adjusted for net debt, an estimated control premium and costs for sale.</p> <p>The results of this impairment assessment are disclosed in Note 12 to the financial statements.</p>	<p>Our procedures involved:</p> <ul style="list-style-type: none"> • Consulting internally to assess the reasonableness of the determination that the business has only a single segment and is a single cash-generating unit; • Consulting internally to determine the appropriateness of the impairment test methodology used, being on a <i>fair value less costs to sell</i> approach by examining the Company's enterprise value; and • Corroborating and substantiating the Company's enterprise value calculations, compared with net assets of the Company. <p>We also ensured that these matters were completely and accurately disclosed in the financial statements.</p>

ACCOUNTING FOR THE ISSUE OF THE ZCS NOTE	
Area of focus	How our audit addressed it
<p>In September 2019 the Group achieved a new source of financing from a counterparty, Alto Capital. As disclosed in note 14 to the financial statements, the product that it issued in order to raise an additional \$USD 1.75m in new finance was a ZCS Note (the Note).</p> <p>The Note has the following features which have impacted the accounting treatment derived for these financial statements:</p> <ul style="list-style-type: none"> • A discount to face value upon issue; • A variable equity conversion feature (featuring a VWAP discount but with a fixed ceiling of AUD 35 cents per share), convertible in the hands of the investor; • The requirement to issue collateral shares with an anti-dilution protection (collateral to be held no less than 2.50% of the Company's shares and up to 4.90%); • A further 3.50% loading to face value in the event that the Note is redeemed for cash; • A participating right conferred to Alto Capital to participate in future financing opportunities of the Company (up to 50%) on terms not disadvantageous to those for the issue of the ZCS Note; and • Extensive and specific default clauses, including those mandating set cash burn rates and liquidity thresholds. <p>The Group has accounted for the conversion clause in the arrangement as an embedded derivative, for which it has sought external specialist expertise to fair value on its statement of financial position, both at the date of issue and as at 31 December 2019, with movements in the fair value of those derivative contracts taken to the profit or loss.</p> <p>In order to successfully raise the Note, the Group paid a 4% (of total face value) arranger's fee, together with the issue of 13.5m options with a strike price of 2.60 AUD cents per share. Each of these is included in the cost of the Note and amortised over the duration of each of the tranches (in total 8) of the ZCS notes.</p> <p>The Company's directors have accounted for the principal value of the Note by applying the face value plus the cash redemption loading feature.</p>	<p>Our procedures involved:</p> <ul style="list-style-type: none"> • Consulting internally to determine the appropriateness of the assessment of the Note as having a variable conversion clause that would require a separate measurement of an embedded derivative liability; • Appraising the independence and competence of the external specialist employed to fair value the embedded derivative liability, both at initial recognition and at 31 December 2019; • Recalculating the discount to the face value (plus cash redemption loading feature) of the principal value of the Note as at initial recognition and at 31 December 2019; and • Confirming the terms of the Note to Alto Capital and vouching those terms to the Note's documentation. <p>We also ensured that these matters were completely and accurately disclosed in the financial statements.</p>

REVENUE RECOGNITION	
Area of focus	How our audit addressed it
<p>We refer you to Note 5 to the financial statements, which sets out the Group's accounting policies for recognising revenues, which require the identification of discrete performance obligations within a contract and, when performed over time, the amortisation used for recognising revenue as it is performed against those performance obligations.</p> <p>These matters require judgment and estimation in order to determine a) what those performance obligations are; and b) over what period over time they are achieved under a contract.</p> <p>Due to the fact that the Group's invoicing policies do not always marry up with its revenue recognition for all of its service product streams, an amount of \$81,518 is represented in the statement of financial position as a <i>contract liability</i>.</p>	<p>Our procedures involved:</p> <ul style="list-style-type: none"> • Assessing the Group's revenue accounting policies to ensure that they meet the requirements of AASB 15 <i>Revenue</i>; • Examining and testing controls over revenues by testing a sample of contracts which either completed or were mid-completion at report date; and • Performing other substantive procedures over revenue, include substantive analytical review procedures. <p>We also ensured that these matters were completely and accurately disclosed in the financial statements.</p>

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 2019, 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 these financial statements 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 independent auditor's report.

Report on the Remuneration Report

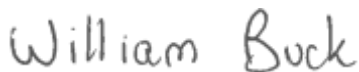
Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of engage:BDR Limited, for the year ended 31 December 2019, 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.



William Buck Audit (Vic) Pty Ltd

ABN: 59 116 151 136



N. S. Benbow

Director

Melbourne, 20th March, 2020

engage:BDR Limited
Shareholder information
31 December 2019

The shareholder information set out below was applicable as at 18 March 2020.

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 listed options over ordinary shares		Number of holders of unlisted options expiring 30 January 2022, exercisable at \$0.052		Number of holders of unlisted options expiring 30 September 2022, exercisable at \$0.026		Number of holder of unlisted zero coupon convertible amortising securities issued at USD\$1,750,000 at a current face value of USD\$1,339,000		Number of holder of unlisted zero coupon convertible amortising securities issued at USD\$382,500 at a current face value of USD\$450,000	
	Number of holders of ordinary shares	% units	Number of holders of listed options over ordinary shares	% units	Number of holders of unlisted options expiring 30 January 2022, exercisable at \$0.052	% units	Number of holders of unlisted options expiring 30 September 2022, exercisable at \$0.026	% units	Number of holder of unlisted zero coupon convertible amortising securities issued at USD\$1,750,000 at a current face value of USD\$1,339,000	% units	Number of holder of unlisted zero coupon convertible amortising securities issued at USD\$382,500 at a current face value of USD\$450,000	% units
1 to 1,000	51		-	-	1	100	1	100	1	100	1	100
1,001 to 5,000	51	0.02	224	3.29	-	-	-	-	-	-	-	-
5,001 to 10,000	201	0.25	299	6.10	-	-	-	-	-	-	-	-
10,001 to 100,000	1,043	5.41	263	17.46	-	-	-	-	-	-	-	-
100,001 and over	577	94.31	40	73.15	-	-	-	-	-	-	-	-
	<u>1,923</u>	100	<u>826</u>	100	<u>1</u>	100	<u>1</u>	100	<u>1</u>	100	<u>1</u>	100
Holding less than a marketable parcel	<u>814</u>		<u>-</u>		<u>-</u>		<u>-</u>		<u>-</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	7.49
Mr Kenneth Kwan	52,529,242	6.82
Alto Opportunity Master Fund + SPC (Segregated Master Port B A/C)	36,852,539	4.79
Mr Kurtis Rintala	36,717,391	4.77
Mrs Elizabeth Anne Macrae	28,200,000	3.66
GHJC Pty Ltd	26,399,799	3.43
Wippit Holdings Pty Ltd	20,500,000	2.66
Hoi An Investment Pty Ltd	18,207,746	2.37
Citicorp Nominees Pty Limited	17,050,068	2.21
Argon Blockchain Holdings	15,210,302	1.98
GHC Nominees Pty Ltd (Jeffco A/C)	13,500,198	1.75
Mr Geoffrey Mark Cottle	12,575,000	1.63
Mr Abdulaziz Saleh Alrajhi	9,341,647	1.21
Dr David James Walland	7,200,000	0.94
J P Morgan Nominees Australia Pty Limited	7,197,777	0.94
Neweconomy Com Au Nominees Pty Limited (900 Account)	7,002,187	0.91
RCL Run Capital Limited	6,518,789	0.85
Mr David Anthony Weir	6,376,900	0.83
Mr Benchun Zhou	6,193,018	0.80
Coffee Camp Pty Ltd (Coffee Camp A/C)	6,098,807	0.79
	<u>391,352,908</u>	<u>50.83</u>

engage:BDR Limited
Shareholder information
31 December 2019

	Listed options over ordinary shares	
	Number held	% of total options issued
Bellaire Capital Pty Ltd (Bellaire Capital Invest A/C)	4,000,000	11.76
GHJC Pty Ltd	2,226,921	6.55
Mr Jorgen Ulrik Jorgensen	1,682,634	4.95
Mr Colin Richard Korn	1,509,236	4.44
Vesterbo Pty Ltd (J Jorgensen Super Fund A/C)	1,117,366	3.29
Clarksons Boathouse Pty Ltd (Clarkson Super Fund A/C)	1,075,000	3.16
Mr Henry Christopher Ponniah	1,072,003	3.15
Mr Christopher John Girling + Ms Yvette Louise Clark (Moloscyg Superannuation A/C)	1,065,650	3.13
Mr Girish Mallesara Hiriyannagowda	1,060,939	3.12
Mr Luke Steven Schembri	1,001,111	2.94
Mr Jeffrey William Cozens	1,000,000	2.94
Conrad Joseph Lawrence Goodger	801,260	2.36
Sean Anthony Mulligan + Anya Rebecca Mulligan (S & A Mulligan Super A/C)	800,000	2.35
Wine Guru Australia Pty Ltd (Donela Family A/C)	730,754	2.15
Michael James Dixon	711,706	2.09
Mr Ernie Aljin Abella	358,429	1.05
Mr John Antony Thomas	326,000	0.96
Mr Patrick Gerard Durkin	300,000	0.88
Ajava Holdings Pty Ltd	290,000	0.85
Mr Kevin Daniel Leary + Mrs Helen Patricia Leary (Kevin & Helen Leary S/F A/C)	250,000	0.74
Rubenstein Family Investments Pty Ltd (Rubenstein Family A/C)	250,000	0.74
	<u>21,629,009</u>	<u>63.61</u>

Unquoted equity securities

	Number on issue	Number of holders
Unlisted listed options expiring 30 January 2022, exercisable at \$0.052	8,676,093	1
Unlisted listed options expiring 30 September 2022, exercisable at \$0.026	13,750,000	1
Unlisted zero coupon convertible amortising securities issued at USD\$1,750,000 at a current face value of US\$1,339,000	1	1
Unlisted zero coupon convertible amortising securities (Series B) issued at USD\$382,500 at a current face value of US\$450,000	1	1

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

Name	Class	Number held
CST Capital Pty Ltd (CST Investments Fund A/C)	Unlisted options expiring 30 January 2022, exercisable at \$0.052	8,676,093
Alto Opportunity Master Fund + SPC (Segregated Master Port B A/C)	Unlisted options expiring 30 September 2022, exercisable at \$0.026	13,750,000
Alto Opportunity Master Fund + SPC (Segregated Master Port B A/C)	Unlisted zero coupon convertible amortising securities issued at USD\$1,750,000 at a current face value of US\$1,339,000	1
Alto Opportunity Master Fund + SPC (Segregated Master Port B A/C)	Unlisted zero coupon convertible amortising securities (Series B) issued at USD\$382,500 at a current face value of US\$450,000	1

engage:BDR Limited
Shareholder information
31 December 2019

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
First Round Capital LLC	57,681,498	7.49
Mr Kenneth Kwan	52,529,242	6.82

Voting rights

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.

Other securities

Other classes of securities issued by the Company do not carry voting rights.

Annual General Meeting

Engage:BDR Limited advises that its Annual General Meeting will be held on or about Friday 29 May 2020. 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.

The Closing date for receipt of nomination for the position of Director is Wednesday 8 April 2020. Any nominations must be received in writing no later than 5.00pm (Melbourne time) on Wednesday, 8 April 2020 at the Company's Registered Office.

The Company notes that the deadline for nominations for the position of Director is separate to voting on Director elections. Details of the Director's to be elected will be provided in the Company's Notice of Annual General Meeting in due course.

Corporate Governance Statement

The Company's 2019 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/>