



ASX Announcement
27 February 2017

PRELIMINARY FINAL REPORT YEAR ENDING 31 DECEMBER 2016

Updater has a big vision: we are reimagining the entire relocation ecosystem in the US. With our Mover Product, we are turning a formerly painful process into an enjoyable, efficient experience for the 17 million households that move within the US every year.

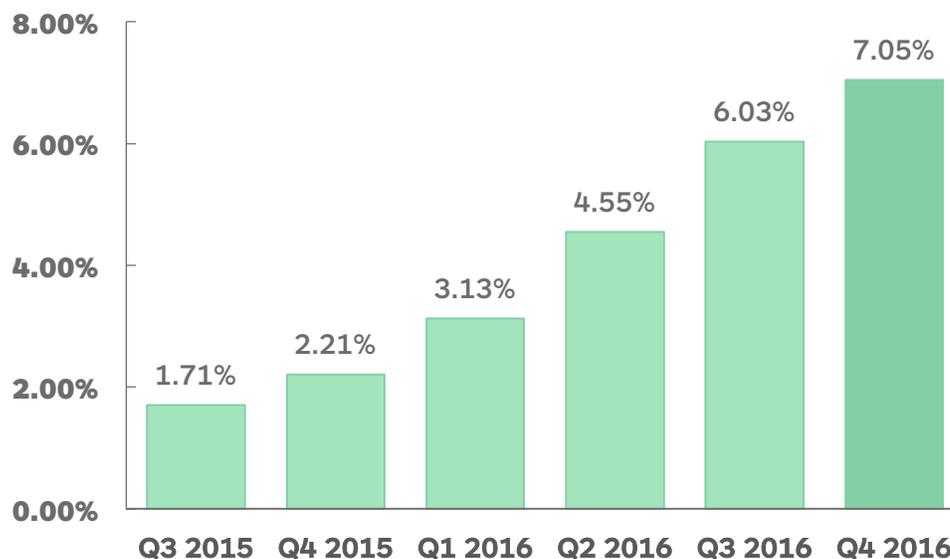
For the Real Estate Companies that regularly interact with Movers, we deliver technology that enables them to add unprecedented value and improve their bottom line. For the Businesses that currently spend billions of dollars each year inefficiently targeting Movers, we deliver technology that facilitates helpful, relevant communication with Movers. Enabling personalised and contextual communication between Business and Movers will ultimately improve the Mover Product experience dramatically.

Management is thrilled that our team surpassed every one of our 2016 goals. We are pleased to share our highlights from the past year below.

2016 Highlights

- Our key performance metric, Estimated Market Penetration hit all-time highs in each quarter of 2016.

Estimated Market Penetration (Q3 2015 – Q4 2016)



- Updater achieved both of its 2016 key performance goals. Updater surpassed 5% Estimated Market Penetration of monthly Moves Processed (in July 2016) and signed 3 Pilot Programs for Business Products. The pilot partners are Liberty Mutual (a diversified global insurer), Capital One (one of the ten largest bank holding companies in the US), and a select group of highly-respected professional moving companies. The primary goals of the Pilot Programs are to prove the value of the Updater platform and gain valuable insights to further improve the experience for Movers.
- Updater signed partnership agreements with hundreds of large Real Estate Companies, including Greystar Real Estate Partners, the largest apartment management company in the US with a portfolio of over 400,000 units across 1,800 properties. Updater also launched technology integrations and partnership with numerous Transaction Management Systems, further increasing the number of Real Estate Companies with which the Company can partner.
- Updater nearly doubled the size of its team, adding over 20 new positions with almost no employee churn. Notable new roles include:
 - Raj Doshi as Senior Vice President of Sales
 - Lindsey Dole as Vice President of People Operations
 - A Director of Platform Engineering to continue developing Updater's core API and technology platform
 - A Director of Operations and Finance to drive operational efficiencies and prepare the team to scale
 - A Product Manager to work exclusively on pilot programs
 - A Senior Dev Ops Engineer to improve efficiency across the technology team
 - Multiple Client Support team members to manage relationships with Real Estate Company partners and increase engagement
 - Multiple Marketing team members to drive sales and retention initiatives, public relations, and employee recruitment
- Updater was ranked the #3 Best Place to Work in New York City by *Crain's New York Business*. Updater was the highest-ranked technology company, an exciting recognition that will prove helpful as the Company continues expanding its team with top tier talent throughout 2017.

Strong Financial Position

The Company is pleased to report that at 31 December 2016, the Company held US\$32,251,581 in cash and cash equivalents (equivalent to approximately AU\$44,784,532 at 31 December 2016), well within the Company's planned budget. Please note that this amount, calculated in accordance with US GAAP accounting

standards, does not include US\$716,000 currently held as security deposits in connection with the Company's current lease agreements. The Company also continues to remain debt-free.

The Company held assets totaling US\$33,800,030 at 31 December 2016 (equivalent to approximately AU\$46,934,708 at 31 December 2016). The significant increase in total assets from 2015 year-end (US\$16,934,978) to 2016 year-end, is primarily the result of the A\$30,000,000 Placement, the cash proceeds from which hit Updater's bank accounts in October 2016.

The Company's 2016 operating loss totaled US\$8,860,152, the vast majority of which related to personnel expenses. Included in personnel expenses is a US\$3,546,723 stock-based compensation expense, which is a non-cash transaction. The company's 2016 net operating loss, excluding stock-based compensation, was US\$5,313,429. Over this period, the company's average monthly cash burn from normal operations (which excludes the cash influx resulting from the A\$30,000,000 Placement, as well as select non-recurring costs resulting from the Company's ASX listing) was approximately US\$454,291.

Although 2016 revenue of US\$578,258 increased significantly as compared to 2015 revenue of US\$183,492, it is important to note that increased Estimated Market Penetration, not revenue, was the Company's primary business objective in 2016. All of the Company's 2016 revenue related to the sale of Real Estate Products, as the Company is not yet selling Business Products.

The Company is fortunate to have a strong cash position and can afford to continue its planned strategy of focusing the majority of its resources on increasing Estimated Market Penetration and operating Pilot Programs.

Looking Ahead

2017 is set to be a game-changing year for Updater. We have established ambitious goals (outlined below), which, if achieved, will solidify Updater as a dominant player in the US relocation industry.

Below are the key performance metrics that the Company seeks to achieve over the course of 2017:

- Achieve 15% Estimated Market Penetration of Monthly Moves Processed in any month prior to year-end 2017.
- Sign two new Pilot Programs during calendar year 2017; and ensure all five Pilot Programs are fully operational before year-end 2017.

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- Announce Results relating to at least two (2) separate Pilot Programs (in separate verticals), at least one announcement by 30 June 2017 and at least one more before year-end 2017.
 - Announce the initial vertical(s) for deployment and sales of Business Products, along with a comprehensive analysis and sales goals, by year-end 2017.

Details regarding the Company's 2017 strategy and key performance metrics can be found in the Company's ASX filing entitled "2017 Business Objectives", dated 14 February 2017.

Management would like to extend a warm thank-you to our Shareholders for their continued support as we move into this exciting new chapter.

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About Updater:

Updater makes moving easier for the 17 million households that relocate every year in the US. With Updater, users seamlessly transfer utilities, update accounts and records, forward mail, and much more. Hundreds of the most prominent real estate companies in the US (from real estate brokerages to property management companies) rely on Updater's real estate products to save clients hours with a branded and personalised Updater moving experience. With significant market penetration of all US household moves, Updater can enable contextual and personalised communication between relocating consumers and the US businesses spending billions of dollars trying to reach them.

Updater is headquartered in New York City, and prior to listing on the ASX, Updater received significant investments from leading US venture capital firms including SoftBank Capital, IA Ventures, and Second Century Ventures (the strategic investment division of the National Association of REALTORS®).

For more information, please visit www.updater.com.

Appendix 4E Preliminary Final Report

Reporting Period

| | |
|------------------|------------------|
| Year ended: | Year ended: |
| 31 December 2016 | 31 December 2015 |

Results for announcement to the market

| Description | 31 December 2016 | 31 December 2015 | % change |
|--|------------------|------------------|----------|
| Revenue from ordinary activities | 578,258 | 183,492 | 215 |
| Profit (loss) after tax from ordinary activities attributable to members | (8,860,152) | (6,089,575) | (45) |
| Net profit (loss) after tax from ordinary activities Attributable to members | (8,860,152) | (6,089,575) | (45) |

Commentary on results for the period

Updater Inc. (the "Company") is pleased to report its strong financial position at 31 December 2016.

The Company is pleased to report that at 31 December 2016, the Company held US\$32,251,581 in cash and cash equivalents (equivalent to approximately AU\$44,784,532 at 31 December 2016), well within the Company's planned budget. Please note that this amount, calculated in accordance with US GAAP accounting standards, does not include US\$716,000 currently held as security deposits in connection with the Company's current lease agreements. The Company also continues to remain debt-free.

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Updater Inc.
Results for Announcement to the Market
Years ended December 31, 2016 and 2015

The Company's 2016 operating loss totaled US\$8,860,152, the vast majority of which related to personnel expenses. Included in personnel expenses is a US\$3,546,723 stock-based compensation expense, which is a non-cash transaction. The company's 2016 net operating loss, excluding stock-based compensation, was US\$5,313,429. Over this period, the company's average monthly cash burn from normal operations (which excludes the cash influx resulting from the A\$30,000,000 Placement, as well as select non-recurring costs resulting from the Company's ASX listing) was approximately US\$454,291.

Although 2016 revenue of US\$578,258 increased significantly as compared to 2015 revenue of US\$183,492, it is important to note that increased Estimated Market Penetration, not revenue, was the Company's primary business objective in 2016. All of the Company's 2016 revenue related to the sale of Real Estate Products, as the Company is not yet selling Business Products.

The Company is fortunate to have a strong cash position and can afford to continue its planned strategy of focusing the majority of its resources on increasing Estimated Market Penetration and operating Pilot Programs. Details regarding the Company's 2017 strategy and key performance metrics can be found in the Company's ASX filing entitled "2017 Business Objectives", dated February 14th, 2017.

Capitalized terms in this section have the meaning set forth in the Company's Annual Report dated March 31, 2016.

Shares of stock

"Shares" refer to shares of common stock of the Company. The Company has CHESS Depository Interests ("CDIs") over shares of common stock that are publicly traded on the Australian Securities Exchange ("ASX").

25 CDIs are transferable for 1 share of common stock.

Dividends

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

Net Tangible Asset per share

| | 2016 | 2015 |
|---|--------|--------|
| | Number | Number |
| Net tangible asset per share (US\$ cents per share) | 172.83 | 99.15 |

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Updater Inc.
Results for Announcement to the Market
Years ended December 31, 2016 and 2015

Details of entities where control has been gained or lost during the period

N/A

Associates and Joint Ventures

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

Accounting standards

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

Audit report

This preliminary final report is based on unaudited financial statements which are currently in the process of being audited.

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UPDATER INC.

Financial Statements

Years ended December 31, 2016 and 2015

Pages(s)

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Updater Inc.
Balance Sheets
December 31, 2016 and 2015

| Assets | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|---------------------------------|---------------------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 32,251,581 | \$ 16,605,391 |
| Restricted cash | 100,426 | 100,225 |
| Accounts receivable | 48,854 | 27,882 |
| Unbilled revenue | 53,120 | - |
| Prepaid expenses | 188,970 | 115,989 |
| Total current assets | <u>32,642,951</u> | <u>16,849,487</u> |
| Property and equipment, net | 457,188 | 34,610 |
| Other assets | <u>699,891</u> | <u>50,881</u> |
| | <u>\$ 33,800,030</u> | <u>\$ 16,934,978</u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 346,789 | \$ 241,092 |
| Deferred revenue | <u>30,105</u> | <u>34,771</u> |
| Total current liabilities | 376,894 | 275,863 |
| Long term liabilities | | |
| Warrant liability | - | 959,689 |
| Deferred rent | - | 12,768 |
| Total long term liabilities | <u>-</u> | <u>972,457</u> |
| Stockholders' equity | | |
| Common stock, \$.001 par value | 19,557 | 17,080 |
| Additional paid in capital | 56,479,524 | 29,885,371 |
| Accumulated deficit | <u>(23,075,945)</u> | <u>(14,215,793)</u> |
| Total stockholders' equity | <u>33,423,136</u> | <u>15,686,658</u> |
| | <u>\$ 33,800,030</u> | <u>\$ 16,934,978</u> |

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

Updater Inc.
Statements of Operations
Years ended December 31, 2016 and 2015

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|------------------------------------|--------------------------|--------------------------|
| Revenue, net | \$ 578,258 | \$ 183,492 |
| Cost of revenue | <u>37,388</u> | <u>27,460</u> |
| Gross margin | 540,870 | 156,032 |
| Operating expenses | | |
| Research and development expense | 1,540,095 | 1,369,546 |
| Sales and marketing expense | 2,648,416 | 1,908,398 |
| General and administrative expense | 1,894,296 | 1,574,747 |
| Stock based compensation | <u>3,456,723</u> | <u>461,605</u> |
| Total operating expenses | <u>9,539,530</u> | <u>5,314,296</u> |
| Loss from operations | (8,998,660) | (5,158,264) |
| Other income (expense) | | |
| Other expense | (29,463) | (42,347) |
| Other Income | 5,698 | 5,000 |
| Interest income | 47,087 | 2,158 |
| Change in fair value of warrants | <u>115,186</u> | <u>(896,122)</u> |
| Total other income /(expense), net | <u>138,508</u> | <u>(931,311)</u> |
| Net loss | <u>\$ (8,860,152)</u> | <u>\$ (6,089,575)</u> |

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

Updater Inc.
 Statements of Changes in Stockholders' Equity
 Years ended December 31, 2016 and 2015

| | Series A-1 Convertible Preferred Stock | | Series A Convertible Preferred Stock | | Common Stock | | Additional Paid in Capital | Accumulated Deficit | Total Stockholders' Equity |
|--|---|----------|---|----------|---------------|-----------|-------------------------------|------------------------|----------------------------------|
| | No. of Shares | Amount | No. of Shares | Amount | No. of Shares | Amount | | | |
| January 1, 2015 | 3,354,799 | \$ 3,355 | 3,135,451 | \$ 3,135 | 5,644,912 | \$ 5,645 | \$ 10,004,745 | \$ (8,126,218) | \$ 1,890,662 |
| Issuance of common stock for cash, net of expense | - | - | - | - | 5,876,167 | 5,876 | 18,930,300 | - | 18,936,176 |
| Issuance of common stock to related parties for cash, net of expense | - | - | - | - | 341,706 | 342 | 999,658 | - | 1,000,000 |
| Conversion of preferred stock to common stock | (3,354,799) | (3,355) | (3,135,451) | (3,135) | 6,543,236 | 6,543 | (53) | - | - |
| Repurchase of common stock | - | - | - | - | (4,641,494) | (4,641) | (995,359) | - | (1,000,000) |
| Exercise of options | - | - | - | - | 40,000 | 40 | 94,755 | - | 94,795 |
| Stock based compensations expense (restricted stock) | - | - | - | - | 3,274,960 | 3,275 | 389,720 | - | 392,995 |
| Stock based compensations expense (options) | - | - | - | - | - | - | 461,605 | - | 461,605 |
| Net loss | - | - | - | - | - | - | - | (6,089,575) | (6,089,575) |
| December, 31 2015 | - | - | - | - | 17,079,487 | 17,080 | 29,885,371 | (14,215,793) | 15,686,658 |
| Exercise of common stock options for cash, net of expense | - | - | - | - | 77,291 | 77 | 203,807 | - | 203,884 |
| Issuance of common stock for cash, net of expense | - | - | - | - | 2,400,000 | 2,400 | 21,999,120 | - | 22,001,520 |
| Reclassification of liability warrants | - | - | - | - | - | - | 844,503 | - | 844,503 |
| Stock based compensations expense | - | - | - | - | - | - | 3,546,723 | - | 3,546,723 |
| Net loss | - | - | - | - | - | - | - | (8,860,152) | (8,860,152) |
| December, 31 2016 | - | \$ - | - | \$ - | 19,556,778 | \$ 19,557 | \$ 56,479,524 | \$ (23,075,945) | \$ 33,423,136 |

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

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Updater Inc.
Statements of Cash Flows
Years ended December 31, 2016 and 2015

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|--------------------------|--------------------------|
| Cash flows from operating activities | | |
| Net loss | \$ (8,860,152) | \$ (6,089,575) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation expense | 40,831 | 28,054 |
| Change in fair value of warrants | (115,186) | 896,122 |
| Stock based compensation expense | 3,546,723 | 854,600 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (20,972) | (17,710) |
| Unbilled revenue | (53,120) | - |
| Prepaid expenses | (72,981) | (114,210) |
| Deferred revenue | (4,666) | (21,007) |
| Accounts payable and accrued expenses | 92,928 | 124,437 |
| Net cash used by operating activities | <u>(5,446,595)</u> | <u>(4,339,289)</u> |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (463,409) | (6,141) |
| Increase in restricted cash | (201) | (75,212) |
| Other assets | (649,010) | - |
| Net cash used by investing activities | <u>(1,112,620)</u> | <u>(81,353)</u> |
| Cash flows from financing activities | | |
| Proceeds from issuance of common stock, net | 22,001,520 | 18,936,176 |
| Repurchase of common stock | - | (1,000,000) |
| Proceeds from issuance of common stock to related parties | - | 1,000,000 |
| Proceeds from exercise of options | 203,884 | 94,795 |
| Net cash provided by financing activities | <u>22,205,404</u> | <u>19,030,971</u> |
| Net increase in cash and cash equivalents | 15,646,189 | 14,610,329 |
| Cash and cash equivalents | | |
| Beginning of year | 16,605,391 | 1,995,062 |
| End of year | <u>\$ 32,251,580</u> | <u>\$ 16,605,391</u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | <u>\$ -</u> | <u>\$ 23,208</u> |
| Non cash investing and financing activity | | |

During 2016, warrants valued at \$844,503 were converted to an equity classification from a liability classification due to the removal of a contingent put option.

On September 15, 2015 6,490,250 shares of preferred stock were converted to 6,543,236 shares of common stock

1. **Summary of Significant Accounting Policies**

Nature of Business

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

Use of Estimates

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

Cash and Cash Equivalents

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

Accounts Receivable and Credit Policies

Accounts receivable are uncollateralized, non-interest bearing customer obligations due under normal trade terms, usually within 30 days of services provided.

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

Management individually reviews all accounts receivable balances that exceed 90 days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Management may also utilize the direct write off method for specific balances that are deemed uncollectible between financial reporting periods. Management determined that no allowance for doubtful accounts was required as of December 31, 2016 and 2015.

Revenue Recognition

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

The Company typically enters into fixed fee contracts with enterprise and small business clients which dictate both revenue recognition and billings to customers. These contracts are typically for a 1-year initial term, with annual renewals thereafter. Fees are due under the contracts in varying terms either monthly or annually. Revenue is recognized upon delivery of the service. The Company occasionally receives payment in advance of service, this payment is deferred and recognized into revenue upon delivery of the service.

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

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

The Company generally performs its services in one period with the billing occurring in a subsequent period. The Company accrues unbilled revenue at the end of the period, provided that the other revenue

criteria have been met.

Property and Equipment

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

| <u>Description</u> | <u>Estimated Life (Years)</u> |
|------------------------|-----------------------------------|
| Computer equipment | 5 |
| Furniture | 5 |
| Leasehold improvements | * |

* Shorter of lease term or useful life.

Leasehold improvements are amortized using the straight line method over the shorter of the lease term or estimated useful life of the asset.

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

Concentration of Credit Risk

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

Research and Development

Research and development costs consist primarily of salaries and benefits paid to engineers and other members of the product development team. Costs incurred for research and development are expensed as incurred. In addition, the Company recognizes research and development expenses in the period in which it becomes obligated to incur such costs.

Advertising

The Company expenses the cost of advertising and marketing as incurred. Total advertising costs for the years ended December 31, 2016 and 2015 were approximately \$2,600 and \$500, respectively.

Cost of Revenue

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

Sales and Marketing

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

General and Administrative

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

Stock-Based Compensation

Stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense, net of estimated pre-vesting forfeitures, ratably over the vesting period of the award. In addition, the pronouncement dealing with the stock-based compensation requires additional accounting related to the income tax effects and disclosures regarding the cash flow effects resulting from stock-based payment arrangements.

Calculating stock-based compensation expense requires the input of highly subjective assumptions,

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

Income Taxes

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

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

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

The Company had no uncertain tax positions at December 31, 2016 and 2015, respectively. In addition, the Company has no material income tax related penalties or interest for the periods reported in these financial statements.

Fair Value Measurements

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

Fair value is defined under the accounting standard related to fair value measurements, as the exchange price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants on the measurement date. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability.

Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's evaluation about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances

A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

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

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

Updater Inc.
Notes to Financial Statements
December 31, 2016 and 2015

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

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

2. Restricted Cash

The restricted cash balance consists of a certificate of deposit collateralizes the Company credit card as required by the banking institution. As of December 31, 2016 and 2015, \$100,426 and \$100,225, respectively, was maintained in restricted cash.

A letter of credit in the amount of \$664,776 was issued to the Company in conjunction with the Company's new lease agreement (see note 6) and is included in other assets.

3. Property and Equipment

Property and equipment consists of the following at:

| | December 31, <u>2016</u> | December 31, <u>2015</u> |
|-----------------------------|-------------------------------------|-------------------------------------|
| Leasehold improvements | \$ 272,708 | \$ - |
| Computer equipment | 158,214 | 78,156 |
| Furniture | <u>132,796</u> | <u>22,153</u> |
| Subtotal | 563,718 | 100,309 |
| Accumulated depreciation | <u>(106,530)</u> | <u>(65,699)</u> |
| Property and equipment, net | <u>\$ 457,188</u> | <u>\$ 34,610</u> |

Depreciation expense charge to operations was \$40,831 and \$28,054 for the years ended December 31, 2016 and 2015, respectively.

4. Income Taxes

The Company's deferred income tax assets consist of the following:

| | December 31, <u>2016</u> | December 31, <u>2015</u> |
|----------------------------------|-------------------------------------|-------------------------------------|
| Net operating loss carryforwards | \$ 8,206,645 | \$ 5,017,863 |
| Other | <u>185,335</u> | <u>423,452</u> |
| Total deferred tax assets, net | 8,391,980 | 5,441,315 |
| Valuation allowance | <u>(8,391,980)</u> | <u>(5,441,315)</u> |
| Net deferred tax assets | <u>\$ -</u> | <u>\$ -</u> |

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Deferred tax assets consist primarily of net operating loss carryforwards. The Company's effective income tax rate differs from the federal and state statutory rates for all periods presented due to the valuation allowance recorded against the deferred tax assets. The Company has provided for a 100% valuation allowance for all periods presented as the realization of sufficient future taxable income during the expiration period of the net operating loss carryforwards is uncertain. As of December 31, 2016, the Company has approximately \$19,431,252 in federal, and \$30,139,849 in state and city net operating loss carryforwards available to offset future taxable income. The majority of the federal and state net operating loss carryforwards will begin to expire in 2032.

5. Line of Credit

In January 2015 the Company entered into an agreement for a secured credit line facility with Silicon Valley Bank ("SVB") that provides for borrowings of up to \$1,500,000, which can be drawn down in increments of at least \$500,000 during the draw period, which ends on January 13, 2016. The line was secured by a first perfected security interest in all assets, excluding intellectual property. Interest was charged at 1.25% above the Prime Rate. On September 11, 2015, the Company repaid this facility in full and terminated the agreement.

In January 2015, the Company issued to SVB a warrant for 22,000 shares of common stock with an exercise price of \$0.47 per share and a term of 10 years in connection with this loan. The value of the warrants was determined to be immaterial and no value was ascribed to them. As of December 31, 2016, all of the aforementioned warrants remained outstanding.

6. Commitments

The Company has lease commitments for office space in New York City under a non-cancellable lease which expired in January 2017. In March of 2016, the Company entered into a 10-year lease for new office space in New York City. Rental payments for this lease initiated upon move-in, in January of 2017. For the years ended December 31, 2016 and 2015, rent expense amounted to \$131,756 and \$136,335, respectively.

Assuming that the Company remains in leased premises, the future minimum rental payments due under the lease agreements are as follows:

Year ending December 31:

| | |
|------------|---------------------|
| 2017 | \$ 508,919 |
| 2018 | 553,980 |
| 2019 | 664,776 |
| 2020 | 609,378 |
| 2021 | 664,776 |
| Thereafter | <u>3,462,375</u> |
| | <u>\$ 6,464,204</u> |

7. Concentrations

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

As of December 31, 2016, the Company had an accounts receivable balance with one customer approximating 26% of total accounts receivable.

8. Stockholders' Equity

2016 Equity Overview

Authorized and Outstanding

At December 31, 2016, the authorized capital of the Company consists of 55,000,000 shares of common stock and 55,000,000 shares of common prime stock. Furthermore, 19,556,778 shares of common stock were issued and outstanding and there were no shares of common prime stock issued and outstanding.

Sale of Stock

On September 28, 2016, the Company sold 2,400,000 shares of common stock (equivalent to 60,000,000 CHES Depository Interests) to new and existing stock holders for cash totaling US\$22,001,520, net of expenses.

Exercise of Stock Options

During the year ended December 31, 2016, 77,291 shares of common stock were issued upon the exercise of stock options for cash totaling \$203,884.

2015 Equity Overview

Authorized and Outstanding

At December 31, 2015, the authorized capital of the Company consisted of 55,000,000 shares of common stock and 55,000,000 shares of common prime stock. 17,079,487 shares of common stock were issued and outstanding and there were no shares of common prime stock issued and outstanding.

Sale of Stock

On September 15, 2015, the Company sold 1,476,167 shares of common stock to new stockholders for cash totaling US\$4,290,979.

On September 15, 2015, the Company sold 113,902 shares of common stock to an existing stockholder for cash totalling US\$333,333, and 227,804 shares of common stock to certain Company officers in exchange for two stock subscription receivables totalling US\$666,667, which were fully repaid by November 9, 2015.

On December 7, 2015 the Company listed CHES Depository Interests ("CDIs") on the Australian Securities Exchange ("ASX") after successfully raising approximately US\$16,150,000 in gross proceeds from new Australian investors. Net cash proceeds were reduced by approximately US\$1,370,000 of issuance costs. The Company issued a total of 4,400,000 new shares of common stock as part of the IPO fundraising transaction. CDIs, not the Company's common stock, are traded on the ASX. At the option of the holder, 25 CDIs can be converted to 1 share of common stock, and vice versa.

Grants of Restricted Stock

On August 28, 2015, 3,274,960 shares of restricted common stock were issued to existing employees and directors in exchange for services.

Exercise of Stock Options

During the year ended December 31, 2015, 40,000 shares of common stock were issued upon the exercise of stock options for cash totalling US\$94,795.

Recapitalization

On August 28, 2015, the Company signed a recapitalization agreement, whereby all of the existing

preferred stockholders converted their shares into common stock and the Company repurchased 4,641,494 shares of common stock for cash totalling US\$1,000,000. The recapitalization of the Company's stock closed on September 15, 2015, and since that date there has been no preferred stock outstanding.

Preferred Stock – None outstanding as of August 28, 2015

The following provisions set forth the rights and privileges of the preferred shareholders according to the Company's Certificate of Incorporation in operation prior to the recapitalization of the Company. Since August 28, 2015, and the recapitalization of the Company, there has been no preferred stock outstanding.

Voting

Preferred shareholders were entitled to one vote for each share of common stock into which such preferred stock could then be converted and had voting rights and powers equal to the voting rights of the common stock. After August 28, 2015 and the recapitalization of the stock of the Company, there was no preferred stock outstanding.

The holders of the common stock were entitled to one vote for each share of common stock held at all meetings of stockholders (and written actions in lieu of meetings); There was no cumulative voting. The holders of common stock prime shall not be entitled to any voting rights.

Dividends

The holders of preferred stock were entitled to receive, a non-cumulative dividend on each outstanding share of preferred stock (the "Preferred Dividends") at the rate of 8% per annum of the Original Issue Price (as defined below), when and if declared by the Board of the Directors out of the assets of the Company that are by law available. The "Series A Original Issue Price" meant \$0.9568 per share, and the "Series A-1 Original Issue Price" meant \$1.4904 per share. All preferred shares were subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the preferred stock. The Company could not declare, pay, or set aside any dividends on common stock of the Company unless any and all such dividends or distributions in excess of the Preferred Dividends were distributed among all holders of common stock and preferred stock in proportion to the number of shares of common stock that would be held by each such holder if all shares of preferred stock were converted to common stock at the then effective conversion rate. After August 28, 2015 and the recapitalization of the stock of the Company, there was no preferred stock outstanding.

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

Liquidation

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

If upon any such liquidation, dissolution or winding up of the Company or liquidation event, the assets of the Company available for distribution to its stockholders shall be insufficient to pay the holders of shares of preferred stock the full applicable liquidation amount to which they shall be entitled, the holders of shares of preferred stock shall share ratably in any distribution of the assets available for distribution in proportion to the respective applicable liquidation amounts that would otherwise be payable in respect of the shares of preferred stock held by them upon such distribution if all amounts payable on or with respect

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to such shares were paid in full.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company or liquidation event, after the payment in full of the applicable liquidation amounts to be paid to the holders of shares of preferred stock, the remaining assets of the Company available for distribution to its stockholders shall be distributed among the holders of shares of common stock, pro rata based on the number of shares held by each such holder. After August 28, 2015 and the recapitalization of the stock of the Company, there was no preferred stock outstanding.

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

Liquidation Preference

In the event of a sale of the Company or all or substantially all of its assets, a merger or consolidation of the Company (except a merger or consolidation in which the holders of capital stock of the Company immediately prior to such merger or consolidation continue to hold at least 50% of the voting power of the capital stock of the Company or the surviving or acquiring entity), or either a voluntary or involuntary liquidation, dissolution, or winding up of the Company, the Company is obligated to pay a group of investors (the "preferred stockholders") who formerly held preferred stock the aggregate amount of \$7,199,991.94 less (i) any proceeds received by the preferred stockholders from the sale of their common stock, and less (ii) any proceeds to be paid to the preferred stockholders from a sale or liquidation of the Company by virtue of their common stock ownership.

Anti-Dilution

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

As of December 31, 2016, there was no preferred stock outstanding.

Conversion

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

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

Each share of Series A-1 preferred stock shall automatically be converted into shares of common stock at the applicable Conversion Rate then in effect for such series of preferred stock immediately upon the

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earlier of (i) a Qualifying IPO, or (ii) the date specified by written consent or agreement of the holders of at least 66 2/3% of the then outstanding shares of Series A-1 preferred stock.

As of December 31, 2016, there was no preferred stock outstanding.

Redemption

In the event of a liquidation event (as defined in the articles of incorporation), if the Company does not effect a dissolution of this corporation under the General Corporation Law within ninety (90) days after such liquidation event, then (i) the Company shall send a written notice to each holder of preferred stock no later than the 90th day after the liquidation event advising such holders of their right (and the requirements to be met to secure such right) pursuant to the terms of the following clause (ii) to require the redemption of such shares of preferred stock, and (iii) if the holders of at least a majority of the then outstanding shares of preferred stock so request in a written instrument delivered to this corporation not later than 120 days after such Liquidation Event, the Company shall use the consideration received by the Company for such Liquidation Event (net of any retained liabilities associated with the assets sold or technology licensed, as determined in good faith by the Board of Directors of this corporation), together with any other assets of this corporation available for distribution to its stockholders, all to the extent permitted by Delaware law governing distributions to stockholders (the "Available Proceeds"), on the 150th day after such Liquidation Event, to redeem all outstanding shares of preferred stock at a price per share equal to, with respect to the Series A preferred stock, the Series A Liquidation Amount and, with respect to the Series A-1 preferred stock, the Series A-1 Liquidation Amount. Notwithstanding the foregoing, in the event of a redemption pursuant to the preceding sentence, if the Available Proceeds are not sufficient to redeem all outstanding shares of preferred stock, the Company shall redeem a pro rata portion of each holder's shares of preferred stock to the fullest extent of such Available Proceeds, and shall redeem the remaining shares to have been redeemed as soon as practicable after this corporation has funds legally available. Prior to the distribution or redemption, the Company shall not expend or dissipate the consideration received for such Liquidation Event, except to discharge expenses incurred in connection with such Liquidation Event or in the ordinary course of business. As of December 31, 2016 and 2015, there was no preferred stock outstanding.

The common stock and common stock prime is not redeemable.

Protective Provisions

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

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

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

As of December 31, 2016, there was no preferred stock outstanding.

9. **Stock-Based Compensation Plan**

The Company has a stock-based compensation plan for certain employees, Board members and consultants (as amended and restated, the "Plan"). The Plan provides for the granting of options and restricted stock at the discretion of the Board to employees, Board members and consultants. The Board determines the strike price of options at the date of grant based on the fair market value of the stock. Under the Plan, the total number of shares that may be optioned as of December 31, 2016 is 11,500,000 shares of common stock. Options with performance related vesting conditions generally become exercisable after achieving certain predetermined conditions that relate to company specific objectives. Options with service conditions become exercisable over terms ranging from two to four years. Options with market based conditions vest after the achieving of certain predetermined conditions related to the Company's share price on the ASX exchange. Option terms are generally 10 years. The fair value of market based awards is estimated using a Monte Carlo simulation designed to calculate the probability of achieving the vesting condition. The fair value of options with performance or service conditions is estimated on the date of the grant using the Black-Scholes option valuation model based on the assumptions noted in the following table. The expected term of options represents the period that the Company's stock-based awards are expected to be outstanding. The risk-free interest rate for periods related to the expected life of the options is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected volatility is based on historical volatilities noted within the Company's industry. The expected dividend yield is zero, as the Company does not anticipate paying dividends in the near future.

Performance Based Options

In connection with the Company's ASX listing, the Company issued certain Directors and officers of the Company an aggregate of 575,000 options at a strike price of \$3.61, which vest upon achievement of certain performance milestones. These options vest upon the Company surpassing 5% Estimated Market Share, as defined in the Company's Prospectus dated November 17, 2015, in any month in calendar year 2016.

On August 3, 2016, the Company announced that its Estimated Market Share of Monthly Moves Processed surpassed 5% and therefore all 575,000 share were vested upon that date. As of December 31, 2016 and 2015, the Company recognized \$934,017 and \$75,974, respectively, in stock based compensation expense related to these options.

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

- 75,000 vest upon the Company surpassing 5.00% Estimated Market Share in any month prior to

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

As of December 31, 2016 the Company recognized \$98,301 in stock-based compensation expense related to these options. On August 3, 2016, the Company announced that its Estimated Market Share of Monthly Moves Processed surpassed 5% and therefore 75,000 shares were vested upon that date.

On July 1, 2016, the Company issued a consultant of the Company 6,000 options at a strike price of \$4.95, which vest upon achievement of specific marketing milestones in any month prior to December 31, 2016. On December 31, 2016 it was determined that these milestones were not met, and therefore all 6,000 of these shares were forfeited.

Market Based Options

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

On August 8, 2016, the Company announced that the 20 Day VWAP of the CDIs surpassed AU\$0.40 per and therefore all 575,000 share were vested upon that date. As of December 31, 2016 and 2015, the Company recognized \$329,667 and \$27,472 in stock based compensation expense related to these options, respectively.

Total stock-based compensation expense recognized during the years ended December 31, 2016 and 2015 was \$3,546,723 and \$461,605, respectively. As of December 31, 2016, the total unrecognized stock-based compensation balance for unvested options was \$5,806,294, which is expected to be recognized ratably through December 2020.

The weighted average grant date fair value of options granted during the years ended December 31, 2016 and 2015 was \$2.86 and \$0.47, respectively.

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

| | <u>Year Ended December 31, 2016</u> | <u>Year Ended December 31, 2015</u> |
|--------------------------|--|--|
| Expected term (in years) | 7.00 | 7.00 |
| Volatility | 68.51% | 35.54% |
| Risk-free interest rate | 1.54% | 2.09% |
| Dividend yield | 0.00% | 0.00% |

The following describes changes in the outstanding stock-based compensation for the year ended

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December 31, 2016:

| | Options Outstanding | Weighted Average Exercise Price |
|----------------------------------|------------------------|------------------------------------|
| Balance at December 31, 2015 | 3,014,833 | \$2.68 |
| Options granted | 1,359,500 | \$4.78 |
| Options forfeited | (167,184) | \$2.10 |
| Options exercised | <u>(77,291)</u> | \$2.52 |
| Balance at December 31, 2016 | <u>4,122,500</u> | \$3.44 |
| Exercisable at December 31, 2016 | <u>2,135,225</u> | \$2.80 |

The aggregate intrinsic value of stock options outstanding at December 31, 2016 is \$31,073,214. The aggregate intrinsic value of stock options exercised during the year ended December 31, 2016 was \$684,752. A stock option has intrinsic value, at any given time, if and to the extent that the exercise price of such stock option is less than the market price of the underlying common stock at such time. The weighted-average remaining contractual life of options outstanding is 8.5 years.

10. Warrants

As of December 31, 2016 and 2015, the Company has an outstanding warrant for 212,750 shares of common stock with an exercise price of \$0.27 per share in exchange for participation in a mentorship and marketing program (the NAR REach program). On the date of issuance, the warrants were fully vested, exercisable at the option of the holder, in whole or in part, and expire 10 years from the date of issuance. The warrant contains a contingent put provision that could allow the holder to require the Company to settle the warrant in cash. The Company determined that the warrant qualified as a derivative instrument. Accordingly, this instrument was classified as a liability on the accompanying balance sheets. The warrant liability was recorded at fair value, using the Black-Scholes Pricing Model, with the change in fair value being recorded in the statements of operations.

On June 24, 2016, the warrants were amended and the contingent put option was removed. Accordingly, the warrants were revalued as of the amendment date and then reclassified into equity.

The following assumptions were used to determine the warrant liability:

| | <u>Year Ended December 31, 2016</u> | <u>Year Ended December 31, 2015</u> |
|--------------------------|--|--|
| Expected term (in years) | 6.71 | 8.0 |
| Volatility | 59.42% | 35.00% |
| Risk-free interest rate | 1.35% | 2.35% |
| Dividend yield | 0.00% | 0.00% |

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

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| | <u>Year Ended December 31, 2016</u> | <u>Year Ended December 31, 2015</u> |
|---|---|---|
| Liability: | | |
| Warrants at fair value | <u>\$ -</u> | <u>\$ 5,111</u> |
| Fair value of warrants – beginning balance | \$ 959,689 | \$ 63,567 |
| Change in fair value included in results of operations | (115,186) | (58,456) |
| Reclassification of warrants to equity | <u>(844,503)</u> | <u>-</u> |
| Fair value of warrants – ending balance | <u>\$ -</u> | <u>\$ 5,111</u> |

11. Subsequent Events

The Company has evaluated subsequent events through February 26, 2017, which is the date these financial statements were available to be issue, and has determined that there are no events that require recognition or disclosure in these financial statements.