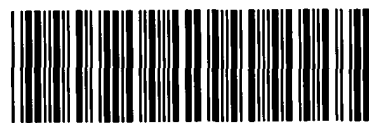


KOBALT MUSIC GROUP LIMITED

Annual Report and Consolidated Financial Statements

For the year ended 30 June 2017

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KOBALT MUSIC GROUP LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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KOBALT MUSIC GROUP LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

W B A Ahdriz
T Bunting
D Caro
J P Fitzherbert-Brockholes
J Ekelund
A J Palm
J Tandberg
R Thompson
N Khemlani
W Marris

COMPANY SECRETARY

T Sansone

REGISTERED OFFICE

4 Valentine Place
London
SE1 8QH

BANKERS

The Royal Bank of Scotland plc
62-63 Threadneedle Street
London
EC2R 8LA

JP Morgan Chase Bank
National Association
2029 Century Park West
38th Floor
Los Angeles
California
90067

AUDITOR

Deloitte LLP
Statutory Auditor
Reading
RG1 3BD

KOBALT MUSIC GROUP LIMITED

CHIEF EXECUTIVE'S REPORT

I am happy to announce yet another year of growth and progress for Kobalt across all of our business units. In the last year (year ending 30 June 2017), Kobalt's overall revenue surged 23% from \$260m to \$321m (over \$385M on a gross basis), gross margin increased 39% and our global workforce grew by over 30%, up to 448 employees.

The global music industry continued its rapid acceleration into the digital age with a banner year in streaming. As a direct result, the volume of data and micro-transactions continued to grow exponentially. The need for Kobalt to manage this growing complexity of information for our clients and more importantly, all creators, is paramount.

It's with this focus we have stayed on course with our strategy of investing for this future digital music industry. To build for this future, we need serious resources, capital and focused execution to continue to expand our market position and extend our tech leadership against established competitors.

In the past year, Kobalt has made strategic investments in our technology, creative services and new employees around the globe. All while ending the year without any long-term debt.

Kobalt continues to create long-term value for our clients and the company, and I have never been more excited about our company and our mission than I am today.

Long-Term Growth

As growth has sustained an upward trajectory for the past year, we've attracted new investment partners as part of our Series D, which includes Hearst Entertainment (May) and Section 32 (October). Existing investors such as Balderton and MSD also participated, bringing our Series D total round to \$89M.

In November, Kobalt also secured access to a total of \$50 million of debt facility with its banking network, more than doubling its previously available debt line capacity.

Securing the capital to grow and progress is a significant step towards building the company for the future music industry. Kobalt will continue to invest in the technological infrastructure and personnel required to meet our short and long-term goals.

The Kobalt Music Stack – Real Transparency

I'm proud to say that all of our businesses: music publishing, neighbouring rights, AWAL and our global society, AMRA, all are now powered by our global collections and payments platform, K-Tech. This global infrastructure provides a level of insight (and collection of) billions of micro-transactions that is five years ahead of anything else that exists today.

Kobalt Music Publishing (Including Synch)

Kobalt's publishing division enjoyed another year of solid growth, growing 14%. Alison Donald has joined us in the UK and Sas Metcalfe was promoted to Chief Creative Officer, overseeing our 40 global creatives. Her team continues to collaborate and produce chart-topping music. As of September, Kobalt writers had shares on 7 of the top 10 singles on the UK OCC chart and 80 of top 200 albums on the US Billboard top album charts.

Kobalt's synch & brand partnerships division continues to deliver big results. In the last 12 months, Kobalt synch negotiated over 10,000 synch licenses and increased revenue by 21%. The team closed nine Super Bowl spots this year, the most of any indie and only second to one of the majors.

Music Recordings

Last year's shift of focus and re-structure of the music recordings division optimized the business for the music streaming market. As a result, revenue has more than doubled from \$18.6m to \$39.6m.

The focus on identifying, developing and breaking new artists through our AWAL service, alongside our established artist clients has resulted in a number of break through successes. The most notable of these has been Lauv, whose songs have received more than 400 million audio streams since becoming a Kobalt client, and whose track "I Like Me Better" is now Platinum in Australia, Norway, Sweden and Holland, and Gold in the US, Germany, Belgium, Austria and Denmark. Other developing artists who have achieved success with us in the last year include Tom Misch (110 million audio streams to date), VÉRITÉ (145 million streams), 3LAU (65 million streams) and Bruno Major (42 million streams).

Key album releases from music recordings clients within the period included Nick Cave & The Bad Seeds' "Skeleton Tree" which achieved eight #1 chart positions worldwide; De La Soul's "And The Anonymous Nobody" which achieved more than 100,000 album sales worldwide; deadmau5's "W:/2016ALBUM/", a #1 US Dance album; Laura Marling's "Semper Pariva", a critically acclaimed album that was #5 in the UK chart; Frank Carter & The Rattlesnakes' "Modern Ruin", a #7 album in the UK chart; and Chip's "League of My Own II", with more than 7 million YouTube streams and more than 18 million audio streams to date.

KOBALT MUSIC GROUP LIMITED

CHIEF EXECUTIVE'S REPORT

Neighbouring Rights

A major milestone last year was our acquisition of Fintage. As you'll note, there was a charge of \$6.4M interest on this deal. This stemmed from our decision to secure a bridge loan, instead of raising capital at the time, which would have been at a much lower company valuation.

That decision allowed us create the largest neighboring rights company in the world, increase the value of Kobalt's valuation and double the amount of capital we raised during our Series D.

Today, we have successfully integrated Fintage into the Neighbouring Rights business and proven the scalability of the Kobalt service model in this area. The increase in the number of clients served has grown by 600% and client retention has remained high at 99%.

Neighbouring rights also showed positive underlying growth in its outside of the Fintage acquisition, with growth of around 20%, with notable clients signed that include: Aurora, Fifth Harmony, Keith Urban, Massive Attack, The Lumineers, Prince, Shawn Mendes, Tobias Jesso Jr. and William Singe.

Kobalt Capital Limited (KCL)

Kobalt's investment advisory firm of two music royalty funds owned by institutional and private investors, which the Kobalt publishing services, also had another great year. The funds delivered both improved returns on historic acquisitions, advances and new investments. The original fund (Fund I) closed and made investments totalling \$350 million. In November, KCL's second fund (Fund II) was announced with the capacity to invest another \$600 million. As a result, we will be building to close to a billion dollars in copyright to be administered by Kobalt publishing over the coming years.

AMRA

Kobalt's unique global digital collection society, and a key part of the Kobalt music stack that ensures global writers and artists get paid accurately and fairly, proved that 2016's comments on expectations of continued success have proven out in this last financial year with overall revenue growing 60% up from \$21.6m in 2016 to \$34.6m.

AMRA's growth and development continues to set new standards for global collections societies, having finalized 20 digital service provider agreement on a global scale since its launch less than three years ago. AMRA's global roll-out has reached basically all corners of the world outside the US and from Q4 2017, includes direct digital collections for China and Japan.

AMRA's processing capacity, by comparison, is unprecedented and delivers significantly faster accounting to its affiliated writers, artists and publishers. All with low fees and complete transparent reporting. AMRA has affiliated agreements with 67 of the top collection societies around the world, capturing more than 99% of the value of our writer's offline performances worldwide.

Willard Ahdritz

Founder and Chief Executive Officer

KOBALT MUSIC GROUP LIMITED

STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITY

The Group's principal activity is the provision of services to the owners and creators of music - there have not been any significant changes in the Group's principal activity in the year under review. The Group head office is in London, with other offices in New York, Los Angeles, Miami, Nashville, Sydney, Stockholm, Berlin, Hong Kong, Netherlands, Switzerland, and Luxembourg.

As shown in the Group's income statement on page 15, the Group's sales have increased by 23.5% over the prior year to \$320.99m while gross profit has increased by 38.6%, \$11.82m in absolute terms. Total administrative expenses have increased by 28.5% to \$64.4m. The loss after tax has increased to \$33.1m against the previous year's \$19.5m. The Group's on-going losses are the result of a conscious decision to prioritise growth through making strategic investments over short term profitability; the results are in line with the Group's long-term forecasts.

KEY FINANCIAL PERFORMANCE INDICATORS

The Board monitors the Company's performance in a number of ways including key performance indicators. The key financial performance indicators together with the information for the prior year are as follows:

| | 2017 | 2016 | Movement | Movement |
|----------------------------|------------|------------|------------|----------|
| Revenue | \$320,991k | \$259,946k | \$61,045k | 23.5% |
| Gross profit | \$42,473k | \$30,653k | \$11,820 | 38.6% |
| Gross profit percentage | 13.2% | 11.8% | - | 1.4% |
| Operating loss | \$24,328k | \$16,700k | (\$7,628)k | (45.7%) |
| Net assets / (liabilities) | \$29,623k | (\$1,597)k | \$31,220k | 1,955.0% |
| Net current liabilities | \$18,815k | \$16,097k | (\$2,718)k | (16.9%) |
| Cash | \$48,445k | \$35,146k | \$13,299k | 37.8% |

The Group also uses certain non-financial performance indicators, one of which is the number of employees. The increase in employee numbers during the year (from an average of 315 to 376) is the result of the Group's rapid growth in activity and investment in the future as discussed in the Chief Executive's Report.

PRINCIPAL RISKS AND UNCERTAINTIES

The risks and uncertainties facing the Group are detailed below.

Revenue generation: The on-going demand for the music administered by the Group is unpredictable and as such the level at which this music will generate revenue for the Group in future periods is uncertain.

The Group seeks to mitigate this risk by aiming to make the roster of music administered by the Group as wide-ranging as possible. This means that the Group's revenue is not unduly affected by fluctuations in the popularity of certain genres of music, or of specific writers and artists. The fact that the Group collects royalties worldwide minimises its exposure to specific territories.

Client acquisition and retention: The decisions of potential clients to sign with Kobalt or of existing clients to remain with Kobalt are complex and involve the consideration of many factors. As such it is uncertain how many new clients the Group will sign and what proportion of existing clients will extend their agreements.

In recent years, the Group has increased its sales efforts, particularly in the US which is the world's largest market. The directors regularly review the Group's capital structure to enable it to provide the royalty advances which larger prospective clients often require.

The Group makes constant efforts to improve its service offering, particularly in the areas of transparency and technological innovation. This serves to help retain existing clients as well as encouraging new clients to join Kobalt.

Market environment: There are uncertain economic conditions at present and the record industry has experienced declining sales volumes. The extent and timing of any response by the record labels to this threat is uncertain. In addition, as the major music publishers are also record companies, it is not clear how they will respond to this and what competitive action they may take to defend their publishing interests.

KOBALT MUSIC GROUP LIMITED

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

The Group monitors the latest developments in the industry by means of research, review of trade publications, and membership of industry organisations and forums. Kobalt's state of the art royalty processing and analysis systems likely allow it to adapt more quickly to industry changes than more traditional publishers.

Changing distribution: The new channels for music distribution and licensing (e.g. streaming) are significantly changing the operational and financial dynamics of music publishing.

Again, Kobalt's technological expertise makes it well-placed to adapt to new distribution channels. The high level of automation in its royalty processing makes assimilating new sources of revenue and/or royalty information less time-consuming and costly.

Third party suppliers: Kobalt relies on a number of important third party suppliers to operate successfully. The nature of music publishing makes it impossible to avoid reliance on some third parties, especially royalty collection societies. Any failure in the provision of these services may adversely impact Kobalt's business.

Brexit: Kobalt collects royalties throughout the EU and also has operations in several EU countries. The future relationship between the UK and the EU is likely to have an impact on Kobalt although the exact nature of this relationship remains unclear. Management is reviewing the Group's activities with a view to mitigating any adverse consequences of Brexit.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a number of financial risks including currency risk, credit risk and liquidity risk. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The Group does not use derivative financial instruments for speculative purposes.

Currency risk

The Group's activities expose it to some risk of changes in foreign currency exchange rates. Other than in exceptional circumstances, the Group does not feel it is necessary to hedge against these exposures as there is largely a natural hedge of currencies.

Credit risk

Royalties due to Kobalt are often from large and established organisations and there is considered to be a low risk that these debts will not be recovered.

The Group is exposed to credit risk when it makes advances to clients. These advances are subject to detailed financial analysis and a full commercial assessment.

Liquidity risk

The Group regularly prepares and updates cash flow forecasts which monitor its financing requirements. The Group maintains a close relationship with its existing lenders whilst regularly assessing the possibility of obtaining finance from other sources.

EVENTS SINCE THE END OF THE FINANCIAL YEAR

On 30 October 2017 the group debt facility was increased to \$50m from \$20m.

In addition to the Series D equity raise in May 2017, a further \$14m Series D was raised after the year end.

Kobalt has entered into material long term lease agreements for office space in London and New York.

FUTURE DEVELOPMENTS

The directors expect another year of strong growth across the Group. The directors are not aware, at the date of this report, of any likely major changes in the Group's principal activities in the next year.

KOBALT MUSIC GROUP LIMITED

STRATEGIC REPORT

RESEARCH AND DEVELOPMENT

In the coming year the Group expects to further enhance and expand its global licensing, collection and payment platform as well as its client portal, providing clients with unparalleled transparency.

Approved by the Board of Directors and signed on behalf of the Board by:

A handwritten signature in black ink, appearing to read 'T Sansone'.

T Sansone

Company Secretary

11 December 2017

KOBALT MUSIC GROUP LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2017.

DIRECTORS

The directors who served throughout the year and to the date of this report, were as follows:

W B A Ahdriz
T Bunting
D Caro
J Ekelund
J P Fitzherbert-Brockholes
A J Palm
R Sanders (resigned 30/06/2017)
J Tandberg
R Thompson
N Khemlani (appointed 04/05/2017)
W Marris (appointed 11/10/2017)

DIRECTOR INDEMNITIES

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

DIVIDENDS

The directors do not recommend the payment of a dividend for the year (30 June 2016 - \$nil).

GOING CONCERN

The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the Statement of accounting policies in the financial statements. For further information refer to note 2.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework*. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the parent financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 *Reduced Disclosure Framework* has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entities financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

KOBALT MUSIC GROUP LIMITED

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation as a whole;
- the strategic report includes a fair review of the developments and performance of the business and the position of the company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced, understandable and provide the information necessary for shareholders to assess the company's position, performance, business model and strategy.

STRATEGIC REPORT

As permitted under s414C(11) of the Companies Act, the company has chosen to present the following information within the strategic report:

- financial risk management policies;
- exposure to price risk, credit risk, liquidity risk and cash flow risk;
- important events since the end of the financial year;
- future developments; and
- research and development activities.

AUDITOR

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them as auditor will be proposed at the forthcoming Annual General Meeting.

DISABLED EMPLOYEES

The company gives full consideration to applications for employment from disabled persons where the candidates' particular aptitudes abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.


KOBALT MUSIC GROUP LIMITED

DIRECTORS' REPORT

EMPLOYEE INVOLVEMENT

The company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2005. During the year, the policy of providing employees with information, including information relating to the economic and financial factors affecting the performance of the company has been continued through company wide meetings and presentations. Regular meetings are held between local management and employees to allow the free flow of information and ideas.

Approved by the Board of Directors and signed on behalf of the Board by:

A handwritten signature in black ink, appearing to read 'T Sansone', followed by three dots.

T Sansone

Company Secretary

11 December 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KOBALT MUSIC GROUP LIMITED

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30th June 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Kobalt Music Group Limited (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 34.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KOBALT MUSIC GROUP LIMITED (Continued)

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability 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 the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 ISAs (UK) 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 these financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KOBALT MUSIC GROUP LIMITED (Continued)

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.



Andrew Evans (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

Reading

RG1 3BD

11 December 2017

KOBALT MUSIC GROUP LIMITED

CONSOLIDATED INCOME STATEMENT For the year ended 30 June 2017

| | Note | 2017 \$'000 | 2016 \$'000 |
|---|------|------------------------|------------------------|
| Continuing operations | | | |
| Revenue | 4 | 320,991 | 259,946 |
| Cost of sales | | (278,518) | (229,293) |
| Gross profit | | <u>42,473</u> | <u>30,653</u> |
| Other operating income | | 3,174 | 2,376 |
| Administrative expenses | | (64,386) | (50,123) |
| Other operating expenses | | (4,550) | (4,942) |
| Foreign exchange gain / (loss) | | (1,039) | 5,336 |
| Operating loss | 5 | <u>(24,328)</u> | <u>(16,700)</u> |
| Investment revenues | | 1,543 | 13 |
| Finance costs | 7 | <u>(6,741)</u> | <u>(458)</u> |
| Loss before tax | | <u>(29,526)</u> | <u>(17,145)</u> |
| Tax | 8 | <u>(3,608)</u> | <u>(2,367)</u> |
| Loss for the year from continuing operations | | <u><u>(33,134)</u></u> | <u><u>(19,512)</u></u> |

All operations were continuing operations during the year.

KOBALT MUSIC GROUP LIMITED

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME For the year ended 30 June 2017

| | 2017 \$'000 | 2016 \$'000 |
|--|------------------------|------------------------|
| Loss for the year | (33,134) | (19,512) |
| Other comprehensive income | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of foreign operations | (1,640) | (10,529) |
| Other comprehensive loss for the year, net of tax | <u>(1,640)</u> | <u>(10,529)</u> |
| Total comprehensive loss for the year, net of tax | <u>(34,774)</u> | <u>(30,041)</u> |


KOBALT MUSIC GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

| | Note | 2017 \$'000 | 2016 \$'000 |
|---------------------------------|------|------------------|------------------|
| Non-current assets | | | |
| Goodwill | 10 | 10,752 | 2,500 |
| Other intangible assets | 11 | 32,648 | 5,300 |
| Property, plant and equipment | 12 | 3,237 | 2,425 |
| Investments | 14 | 5,601 | 4,275 |
| | | <u>52,238</u> | <u>14,500</u> |
| Current assets | | | |
| Trade and other receivables | 15 | 190,537 | 127,681 |
| Cash and bank balances | | 48,445 | 35,146 |
| Current tax asset | | 2,819 | - |
| Deferred tax assets | 18 | 609 | 945 |
| | | <u>242,410</u> | <u>163,772</u> |
| Total assets | | <u>294,648</u> | <u>178,272</u> |
| Current liabilities | | | |
| Trade and other payables | 16 | (2,720) | (7,083) |
| Current tax liabilities | 16 | (1,214) | (2,074) |
| Borrowings | 17 | - | (17,550) |
| Accruals | 16 | (214,996) | (144,166) |
| Deferred revenue | 16 | (42,295) | (8,996) |
| | | <u>(261,225)</u> | <u>(179,869)</u> |
| Non-current liabilities | | | |
| Deferred tax liability | 18 | (3,800) | - |
| Net current liabilities | | <u>(18,815)</u> | <u>(16,097)</u> |
| Net assets/(liabilities) | | <u>29,623</u> | <u>(1,597)</u> |
| Equity | | | |
| Share capital | 21 | 925 | 783 |
| Share premium account | 22 | 179,161 | 104,407 |
| Retranslation reserves | 23 | (10,782) | (9,142) |
| Share option reserve | | 9,595 | 8,348 |
| Retained earnings | | (149,276) | (105,993) |
| Total equity | | <u>29,623</u> | <u>(1,597)</u> |

The financial statements of Kobalt Music Group Limited, registered number 04018752, were approved by the Board of Directors and authorised for issue on 11 December 2017.


 J P Fitzherbert-Brockholes
 Director

KOBALT MUSIC GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

| Note | ISSUED SHARE CAPITAL | SHARE PREMIUM | SHARE OPTION RESERVE | RETAINED EARNINGS | RETRANSL- ATION RESERVES | TOTAL EQUITY |
|---|----------------------------|------------------|----------------------------|----------------------|--------------------------------|-----------------|
| 21 | | | | | | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| As at 1 July 2015 | 778 | 103,045 | 6,715 | (86,481) | 1,387 | 25,444 |
| Loss for the period | - | - | - | (19,512) | - | (19,512) |
| Other comprehensive income | - | - | - | - | (10,529) | (10,529) |
| Total comprehensive income | - | - | - | (19,512) | (10,529) | (30,041) |
| Shares issued | 5 | 1,362 | - | - | - | 1,367 |
| Share-based payment transactions (note 9) | - | - | 1,729 | - | - | 1,729 |
| Share options waived for consideration | - | - | (96) | - | - | (96) |
| Balance at 30 June 2016 | 783 | 104,407 | 8,348 | (105,993) | (9,142) | (1,597) |
| Loss for the period | - | - | - | (33,134) | - | (33,134) |
| Other comprehensive income | - | - | - | - | (1,640) | (1,640) |
| Total comprehensive income | - | - | - | (33,134) | (1,640) | (34,774) |
| Issue of shares | 142 | 74,754 | - | - | - | 74,896 |
| Share-based payment transactions (note 9) | - | - | 1,380 | - | - | 1,380 |
| Share options waived for consideration | - | - | (133) | - | - | (133) |
| Share repurchase from retained earnings | - | - | - | (10,149) | - | (10,149) |
| At 30 June 2017 | 925 | 179,161 | 9,595 | (149,276) | (10,782) | 29,623 |

KOBALT MUSIC GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended 30 June 2017

| | 2017 | 2016 |
|---|-----------------|-----------------|
| | \$'000 | \$'000 |
| Net cash from operating activities | (2,515) | (17,193) |
| Investing activities | | |
| Purchases of property, plant and equipment | (1,945) | (1,298) |
| Purchases of intangible assets | (3,841) | (3,075) |
| Acquisition of subsidiary net of cash taken on | (24,859) | - |
| Net cash used in investing activities | (30,645) | (4,373) |
| Financing activities | | |
| Proceeds on issue of shares | 74,896 | 1,367 |
| Repurchase of own shares | (10,149) | - |
| Consideration paid for waiving of options | - | (96) |
| New bank loans (repaid) / drawn down | (17,550) | 17,550 |
| Net cash (used in)/from financing activities | 47,197 | 18,821 |
| Net increase/(decrease) in cash and cash equivalents | 14,037 | (2,745) |
| Cash and cash equivalents at beginning of year | 35,146 | 46,251 |
| Effect of foreign exchange rate changes | (738) | (8,360) |
| Cash and cash equivalents at end of year | 48,445 | 35,146 |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended 30 June 2017

| | | 2017 | 2016 |
|---|------|-----------------|-----------------|
| | Note | \$'000 | \$'000 |
| Loss for the year | | (33,134) | (19,512) |
| Adjustments for: | | | |
| Finance costs | 7 | 6,741 | 458 |
| Income tax expense | 8 | 3,608 | 2,367 |
| Depreciation of property, plant and equipment | 12 | 1,100 | 942 |
| Amortisation of intangible assets | 11 | 2,904 | 1,568 |
| Impairment of goodwill | 10 | - | 906 |
| Fair value gain in investment | | (1,435) | - |
| Share-based payment expense | 9 | 1,380 | 1,729 |
| Operating cash flows before movements in working capital | | (18,836) | (11,542) |
| Increase in receivables | 15 | (59,624) | (30,782) |
| Increase in payables | 16 | 89,355 | 27,190 |
| Write off deferred tax asset | | 306 | - |
| Cash generated by operations | | 11,200 | (15,134) |
| Income taxes paid | 8 | (6,974) | (1,601) |
| Interest paid | 7 | (6,741) | (458) |
| Net cash from operating activities | | (2,515) | (17,193) |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

1. CORPORATE INFORMATION

Kobalt Music Group Limited and its subsidiaries (collectively, the Group) is a company incorporated in the United Kingdom under the Companies Act. The company is a private company limited by shares and is registered in England and Wales. The consolidated financial statements of the Group for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of the directors on 8 December 2017. Kobalt Music Group Limited (the Company) is a limited company incorporated and domiciled in England. The registered office is located at 4 Valentine Place, London, SE1 8QH.

The Group is principally engaged in the provision of services to the owners and creators of music.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand (\$000), except when otherwise indicated.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences, recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Summary of significant accounting policies

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recognised in profit or loss as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash generating unit retained.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all its revenue arrangements, with the exception of Neighbouring Rights.

Turnover represents 12 months' worth of royalties. Part of this will be represented by an accrual the company makes for approximately three months of royalty revenue, the receipt of which occurs in the first quarter post year end.

Royalty advances

Advances in respect of royalties payable, which are non-refundable but recoupable, comprise advances to clients under contract. All royalty advances are included in other debtors. Specific provisions are made against these advances where the outstanding advance at the balance sheet date exceeds future expected royalty earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

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

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

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

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

Property, plant and equipment

Property plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment, if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|-----------------------|---------------|
| Fixtures and fittings | 20% per annum |
| Office equipment | 33% per annum |
| Computer equipment | 33% per annum |

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement and valuation processes

The investments outlined in note 14 of the Group's assets are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset (or a liability), the Group uses market-observable data to the extent it is available.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Development expenditures on an individual project are recognised as an intangible asset 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 asset; and
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the asset or CGU's value in use, as the fair value less cost to sell is not reliably determinable. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years.

Impairment losses of continuing operations are recognised in the statement of profit or loss in those expense categories consistent with the function of the impaired asset.

Leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

For arrangements entered into prior to 1 July 2015, the date of inception is deemed to be 1 July 2015 in accordance with IFRS 1 First-time Adoption of International Reporting Standards.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Share based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. The Group has issued equity-settled share-based payments to certain employees and others providing similar services. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed immediately if there is no vesting period or on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Pension costs

Kobalt Music Group Limited only operates a defined contribution stakeholder pension scheme. The contributions made by Kobalt are included in the Profit and Loss Account.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in United States Dollars (USD), as the majority of the Group's income and expenses are in USD and all management and bank reporting is undertaken in USD.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against Group equity investments in foreign currency enterprises, which are taken directly to reserves together with the exchange difference on the net investment in these enterprises. The Income Statement is translated at the average exchange rate for the financial year. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

Going concern

During the year the Group made a loss of \$33.1 million and at the balance sheet date had net assets of \$29.6 million. The current and prior year losses are reflective of the strategic decision to invest in the future over short term profitability.

The Group's cash position remained strong, with cash of \$48.4 million held at the balance sheet date. In addition the Group had a loan facility of \$20 million in place as at 30 June 2017 and this has now been extended to \$50 million with an expiry of 2022. The Group also took in a further \$14 million in Series D equity raising after the year end.

The directors acknowledge the Group is trading in an uncertain economic environment, although it is their belief that the Group is well positioned to meet its business objectives. The directors have prepared projected cash flow information for the period ending 30 June 2018 and beyond, and examined the results of sensitivity analysis on their forecasts to assess the effect on cash given certain downside scenarios. These projections anticipate that the Group will be able to operate from cash generated from trading, together with the bank facility in place.

Based on the above, the directors have concluded that the Group will continue in operational existence for the foreseeable future even if there were to be significant reductions in its planned revenues over this period. The directors therefore consider it appropriate to prepare the financial statements on the going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****New standards and interpretations not yet effective**

At the date of authorisation of these financial statements, The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

| Title | Subject | As issued by the IASB, mandatory for accounting periods starting on or after |
|--------------|---------------------------------------|---|
| IFRS 16 | Leases | 1 January 2019 |
| IFRS 9 | Financial Instruments | 1 January 2018 |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2018 |

The directors consider the adoption of certain Standards listed above may have a material impact on the financial statements of the Group in future periods, notably IFRS 9 will impact both the measurement and disclosures of financial instruments; IFRS 15 may have an impact on revenue recognition and related disclosures; and IFRS 16 will have an impact on the recognition, measurement and disclosure of leasing arrangements. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of the adoption of these standards until a detailed review has been completed.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Revenue recognition

In making its judgement, management considered the detailed criteria for the recognition of revenue from the provision of services set out in IAS 18, in particular, whether the Group can reliably measure the revenue due from its contractual counterparts. The directors are satisfied that the valuation method adopted in making this measurement of the revenue in the current year is appropriate.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Recoverability of internally-generated intangible asset

During the year, management reconsidered the recoverability of its internally-generated royalty system which is included in its balance sheet as an intangible asset at a value of \$5.5 million.

Given the unique nature of this system it is not possible to value this asset based on the market price for identical or similar assets. However, since the directors consider Kobalt's royalty system to be a market-leading product they believe that its recoverable value significantly exceeds its value as recorded in the accounts.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit at a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was \$10.8 million.

The goodwill arises from the acquisition of subsidiaries which were purchased in order to accelerate the Group's growth. The goodwill arising on these acquisitions has been attached to the cash generating unit which most closely corresponds to the acquired entity given the nature of its business. Approved forecasts for these cash generating units are then used to determine whether there is any impairment.

Recoverability of advances

In the course of its business the Group regularly makes advances to clients which are recoupable by means of future royalty receipts, but non-refundable.

The directors assess the recoverability of these advances by considering historic earning trends of the clients concerned and also with reference to expected future earnings. Where the discounted value of future earnings is less than the amount advanced a provision is booked against the advance.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable segments, as follows:

- the Publishing segment, which administers music publishing rights on behalf of clients;
- the Music Recordings segment, which distributes and licenses music recordings;
- the Neighbouring Rights segment, which collects neighbouring rights income on behalf of clients; and
- the Society segment, which is a music royalty collection society.

The Group's Chief Executive monitors the operating results of its business units separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

KOBALT MUSIC GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017
4. SEGMENT INFORMATION (continued)

| Classes of business | Publishing | Music recordings | Neighbouring rights | Society | Other/ corporate | Eliminations | Consolidated |
|----------------------------------|--------------------|------------------|---------------------|-----------------|---------------------|--------------------|------------------|
| | 2017 | 2017 | 2017 | 2017 | 2017 | 2017 | 2017 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue | | | | | | | |
| External sales to third parties | 241,306 | 38,424 | 6,671 | 34,590 | - | - | 320,991 |
| Inter-segment sales | 19,151 | 1,216 | 44 | - | - | (20,411) | - |
| Total revenue | 260,457 | 39,640 | 6,715 | 34,590 | - | (20,411) | 320,991 |
| Income/(expenses) | | | | | | | |
| Adjusted EBITDA | 15,367 | (11,152) | 3,675 | (3,525) | (18,513) | - | (14,148) |
| Depreciation and amortisation | | | | | | | (2,912) |
| Impairment of goodwill (Note 10) | | | | | | | - |
| Provisions and write-offs | | | | | | | (1,250) |
| Exchange rate gain/(loss) | | | | | | | (996) |
| Exceptional income/(cost) | | | | | | | (1,747) |
| Finance cost | | | | | | | (6,741) |
| Other income/(expenses) | | | | | | | (1,732) |
| Loss before tax | | | | | | | (29,526) |
| Total assets | 1,605,805 | 135,440 | 71,459 | 48,803 | 351,084 | (1,917,943) | 294,648 |
| Total liabilities | (1,665,161) | (201,541) | (76,192) | (64,675) | (175,232) | 1,917,776 | (265,025) |

KOBALT MUSIC GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017
4. SEGMENT INFORMATION (continued)

| Classes of business | Publishing | Music recordings | Neighbouring rights | Society | Other/ corporate | Eliminations | Consolidated |
|----------------------------------|------------------|------------------|---------------------|-----------------|---------------------|------------------|------------------|
| | 2016 | 2016 | 2016 | 2016 | 2016 | 2016 | 2016 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue | | | | | | | |
| External sales to third parties | 217,714 | 18,584 | 2,000 | 21,648 | - | - | 259,946 |
| Inter-segment sales | 11,150 | 559 | - | - | - | (11,709) | - |
| Total revenue | 228,864 | 19,143 | 2,000 | 21,648 | - | (11,709) | 259,946 |
| Income/(expenses) | | | | | | | |
| Adjusted EBITDA | 6,412 | (8,519) | 625 | (3,298) | (11,156) | - | (15,936) |
| Depreciation and amortisation | | | | | | | (2,510) |
| Impairment of goodwill (Note 10) | | | | | | | (906) |
| Provisions and write-offs | | | | | | | (559) |
| Exchange rate gain/(loss) | | | | | | | 5,336 |
| Exceptional income/(cost) | | | | | | | (566) |
| Finance cost | | | | | | | (458) |
| Other income/(expenses) | | | | | | | (1,546) |
| Loss before tax | | | | | | | (17,145) |
| Total assets | 749,268 | 80,700 | 29,464 | 5,441 | 131,403 | (818,004) | 178,272 |
| Total liabilities | (795,290) | (130,552) | (32,269) | (15,927) | (22,656) | 816,825 | (179,869) |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

4. SEGMENT INFORMATION (continued)

Geographic information

Revenues from external customers

Turnover, which is stated net of value added tax, represents amounts earned in respect of the Group's continuing activity as stated in the Directors' Report. An analysis of turnover by geographical market is given below:

| | 2017 \$'000 | 2016 \$'000 |
|----------------|----------------|----------------|
| United Kingdom | 45,894 | 33,395 |
| Rest of Europe | 101,626 | 75,128 |
| North America | 136,993 | 118,375 |
| Rest of World | 35,478 | 33,048 |
| Total revenue | <u>320,991</u> | <u>259,946</u> |

5. OPERATING LOSS

Has been arrived at after charging/(crediting):

| | | Total from continuing operations | |
|--|----|----------------------------------|----------------|
| | | 2017 \$'000 | 2016 \$'000 |
| Net foreign exchange losses/(gains) | | 1,039 | (5,336) |
| Depreciation of property, plant and equipment | 12 | 1,100 | 942 |
| Amortisation of internally-generated intangible assets included in other operating expenses | 11 | 1,270 | 1,411 |
| Impairment of goodwill | 10 | - | 906 |
| Exceptional Costs | | 1,747 | 566 |
| Staff costs | 6 | 39,658 | 32,083 |
| Fees payable to the Company's auditor for the audit of the Group's annual financial statements | | 342 | 226 |
| Other non-audit services: | | | |
| Taxation compliance services | | 364 | 213 |
| Other taxation advisory services | | 219 | 355 |
| Other advisory services | | <u>286</u> | <u>-</u> |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

6. STAFF COSTS

The average monthly number of employees (including executive directors) was:

| | 2017 Number | 2016 Number |
|------------------------------|----------------|----------------|
| Management | 18 | 18 |
| Copyright administration | 62 | 55 |
| Other administration | 173 | 132 |
| Music recordings | 43 | 40 |
| Client services | 17 | 16 |
| Synchronisation and creative | 63 | 54 |
| | <u>376</u> | <u>315</u> |

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Wages and salaries | 34,753 | 27,954 |
| Employer pension contributions | 286 | 141 |
| Social security contributions and similar taxes | 3,239 | 2,259 |
| Share-based payment charges | 1,380 | 1,729 |
| | <u>39,658</u> | <u>32,083</u> |

7. FINANCE COSTS

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Interest expense on financial liabilities measured at amortised cost | 341 | 458 |
| Interest expense on convertible debt | 6,400 | - |
| | <u>6,741</u> | <u>458</u> |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

8. INCOME TAX

The major components of income tax expense for the years ended 30 June 2017 and 2016 are:

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Current income tax | | |
| United Kingdom corporation tax based on the loss for the year at 19.75% (2016 – 20%) | (36) | - |
| Non-reclaimable withholding tax on royalty payments received | 3,108 | 2,036 |
| Tax paid in overseas jurisdictions | 230 | 331 |
| Total current tax | 3,302 | 2,367 |
| Deferred taxation | | |
| Origination and reversal of timing differences | 306 | - |
| Tax on loss on ordinary activities at standard rate of 19.75% (2016: 20%) | 3,608 | 2,367 |

The standard rate of tax for the year, based on the United Kingdom standard rate of corporation tax is 19.75% (2016 – 20%). The actual tax charge for the current year and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation:

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Loss on ordinary activities before tax | (29,526) | (17,145) |
| Tax on loss on ordinary activities at standard rate | (5,832) | (3,429) |
| Factors affecting charge for the year: | | |
| Expenses not deductible for tax purposes | 254 | 252 |
| Income not taxable for tax purposes | (63) | (7) |
| Depreciation in excess of capital allowances | 267 | 148 |
| Tax losses carried forward | 9,486 | 4,536 |
| Net non-reclaimable withholding tax on royalty payments received | 3,108 | 1,792 |
| Different tax rates used in overseas jurisdictions | (3,618) | 214 |
| Movement in short term timing differences | 6 | (8) |
| Losses utilised | - | (1,131) |
| Total actual amount of current tax | 3,608 | 2,367 |

Deferred taxation

Various Group companies have, subject to agreement by the tax authorities in the relevant jurisdictions, tax losses available for offset against future taxable profits arising from the same trades. These losses have an approximate value of \$28.8 million (2016 - \$20.4 million) of which \$609k (2016 - \$945k) has been recognized as a deferred tax asset. The deferred tax asset has been recognized in entities which have tax losses carried forward and are expected to be fully recovered within the next two years. The change in recognized deferred tax asset in the year is due to both the write off of a deferred tax asset of \$310k charged to the Income Statement and exchange rate movements.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

9. SHARE-BASED PAYMENTS

Equity-settled share options

The Company provides incentives in the form of share options to many employees of the Group as well as a small number of key suppliers. Options are exercisable at a price equal to or greater than the latest issued or traded price of the company's shares on the date of grant. The vesting period is up to three years. If the options remain unexercised after a period of between five and ten years from the date of grant the options expire. Some options are forfeited if the employee leaves the Group.

Details of the share options outstanding during the year are as follows:

| | 2017 | | 2016 | |
|------------------------------------|-------------------------------|--|-------------------------------|--|
| | Number of share options | Weighted average exercise price (in £) | Number of share options | Weighted average exercise price (in £) |
| Outstanding at beginning of year | 936,078 | 17.68 | 778,734 | 15.30 |
| Granted during the year | 107,500 | 23.00 | 250,516 | 23.00 |
| Forfeited during the year | (17,952) | 13.49 | (6,788) | 12.03 |
| Exercised during the year | (53,017) | 16.06 | (84,368) | 12.13 |
| Expired during the year | - | - | (2,016) | 10.00 |
| Outstanding at the end of the year | <u>972,609</u> | | <u>936,078</u> | |
| Exercisable at the end of the year | <u>875,377</u> | | <u>730,445</u> | |

The weighted average share price at exercise was £21.93 (2016 – £20.97).

At 30 June 2017, outstanding options had an exercise price of £2.50 to £23.00 (2016 £2.50 to £23.00) and a weighted average remaining contractual life of 10.0 years (2016 – 8.0 years).

The inputs into the Black-Scholes option pricing model for options granted within the relevant year are as follows:

| Year ended 30 June | 2017 | 2016 |
|---------------------------------------|--------|--------|
| Weighted average share price at grant | £21.93 | £20.92 |
| Weighted average exercise price | £23.00 | £23.00 |
| Expected volatility | 25% | 25% |
| Weighted average expected life | 10.00 | 10.00 |
| Weighted average risk-free rate | 1.55% | 1.72% |
| Expected dividend yield | - | - |

9. SHARE-BASED PAYMENTS (continued)

Expected volatility was estimated by considering comparable companies and historical volatility of the Group's share price over the previous five years.

The Group recognised total expenses of \$1.4 million related to equity-settled share-based payment transactions in the year ended 30 June 2017 (2016 - \$1.7m).

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

10. GOODWILL

| GROUP | Goodwill \$'000 |
|--------------------------------------|--------------------|
| Cost | |
| At 30 June 2016 | 3,406 |
| Additions in year | 8,321 |
| Foreign exchange rate movements | (94) |
| At 30 June 2017 | 11,633 |
| Accumulated impairment losses | |
| At 30 June 2016 | 906 |
| Impairment in year | - |
| Foreign exchange rate movements | (25) |
| At 30 June 2017 | 881 |
| Net book value | |
| At 30 June 2016 | 2,500 |
| At 30 June 2017 | 10,752 |

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a suitable discount rate in order to calculate the present value of the cash flows.

The carrying amount of goodwill is allocated to the CGUs as follows at 30 June 2017, before impairment consideration:

| | 2017 \$'000 | 2016 \$'000 | 2015 \$'000 |
|--------------------------|----------------|----------------|----------------|
| Kobalt Music Netherlands | 1,371 | 1,401 | 1,645 |
| Music Recordings | 1,267 | 1,306 | 1,534 |
| Society | 699 | 699 | 699 |
| Neighbouring Rights | 8,296 | - | - |
| | <u>11,633</u> | <u>3,406</u> | <u>3,878</u> |

10. GOODWILL AND IMPAIRMENT (continued)

The recoverable amounts of all the above CGUs have been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period to 30 June 2020. Other major assumptions are as follows:

| | Kobalt Music Netherlands | Music Recordings | Society | Neighbouring Rights |
|----------------------------|-----------------------------|---------------------|---------|------------------------|
| 2017: | | | | |
| Discount rate | 5.5% | 5.5% | 5.5% | 5.5% |
| EBITDA margin | 6% | 5% | 5% | 9% |
| Average annual growth rate | -9% | 78% | 84% | 19% |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

2016:

| | | | | |
|----------------------------|------|------|------|---|
| Discount rate | 5.5% | 5.5% | 5.5% | - |
| EBITDA margin | 6% | 5% | 5% | - |
| Average annual growth rate | -9% | 78% | 84% | - |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

11. OTHER INTANGIBLE ASSETS

| GROUP | Client contracts \$'000 | Software licences \$'000 | Development costs \$'000 | Publishing assets \$'000 | Total assets \$'000 |
|------------------------------------|-------------------------------|--------------------------------|--------------------------------|--------------------------------|---------------------------|
| Cost | | | | | |
| At 1 July 2015 | - | - | 10,137 | 140 | 10,277 |
| Additions – internally generated | - | - | 2,249 | - | 2,249 |
| Additions – external third party | - | 826 | - | - | 826 |
| Foreign exchange rate movements | - | - | (1,516) | (21) | (1,537) |
| At 30 June 2016 | - | 826 | 10,870 | 119 | 11,815 |
| Additions – internally generated | - | - | 2,578 | - | 2,578 |
| Additions – external third party | 26,538 | 1,263 | - | - | 27,801 |
| Foreign exchange rate movements | - | 190 | (429) | 20 | (219) |
| At 30 June 2017 | 26,538 | 2,279 | 13,019 | 139 | 41,975 |
| Amortisation | | | | | |
| At 1 July 2015 | - | - | 5,679 | 131 | 5,810 |
| Amortisation charge | - | 149 | 1,411 | 8 | 1,568 |
| Foreign exchange rate movements | - | - | (843) | (20) | (863) |
| At 30 June 2016 | - | 149 | 6,247 | 119 | 6,515 |
| Amortisation charge | 796 | 838 | 1,270 | - | 2,904 |
| Foreign exchange rate movements | - | (133) | 21 | 20 | (92) |
| At 30 June 2017 | 796 | 854 | 7,538 | 139 | 9,327 |
| Net book value | | | | | |
| At 1 July 2015 | - | - | 4,458 | 9 | 4,467 |
| At 30 June 2016 | - | 677 | 4,623 | - | 5,300 |
| At 30 June 2017 | 25,742 | 1,425 | 5,481 | - | 32,648 |

All amortisation of intangible assets is recorded as a cost within operating expenses on the income statement.

Client contracts consist of administration agreements acquired on acquisition, these are amortised over 25 years.

Development costs consists entirely of the Group's internally developed royalty system. Different components of the system have different remaining amortisation periods, ranging up to five years.

Publishing assets relates to payments made to acquire the right to collect royalties on future compositions by a certain client. Publishing assets are amortised with the collection of royalties on the future compositions.

Software licences are licences with a perpetual life purchased from external third parties. Software licences are amortised over three years.

Total development costs and \$2,235k of software licences are held by the Company, Kobalt Music Group Ltd.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

12. PROPERTY, PLANT AND EQUIPMENT

| GROUP | Office equipment and fixtures \$'000 | Computer equipment \$'000 | Total \$'000 |
|---------------------------------|---|--|-------------------------|
| Cost | | | |
| At 1 July 2015 | 2,715 | 2,908 | 5,623 |
| Additions | 467 | 831 | 1,298 |
| Foreign exchange movements | (233) | (319) | (552) |
| At 30 June 2016 | 2,949 | 3,420 | 6,369 |
| Additions | 379 | 1,566 | 1,945 |
| Foreign exchange movements | (101) | 10 | (91) |
| At 30 June 2017 | 3,227 | 4,996 | 8,223 |
| Accumulated depreciation | | | |
| At 1 July 2015 | 1,451 | 1,990 | 3,441 |
| Depreciation | 363 | 579 | 942 |
| Foreign exchange movements | (149) | (290) | (439) |
| At 30 June 2016 | 1,665 | 2,279 | 3,944 |
| Depreciation | 349 | 751 | 1,100 |
| Foreign exchange movements | 30 | (88) | (58) |
| At 30 June 2017 | 2,044 | 2,942 | 4,986 |
| Net book value | | | |
| At 1 July 2015 | 1,264 | 918 | 2,182 |
| At 30 June 2016 | 1,284 | 1,141 | 2,425 |
| At 30 June 2017 | 1,183 | 2,054 | 3,237 |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

13. SUBSIDIARIES

The Group consists of a parent company, Kobalt Music Group Ltd, incorporated in the UK and a number of subsidiaries held directly and indirectly, which operate and are incorporated around the world. All subsidiaries are 100% owned by the Group with 100% of voting share. See below for details:

| Name | Address | Place of incorporation and operation | Principal activity |
|---|---------|--------------------------------------|---|
| AWAL Digital Limited* | (a) | UK | Distribution and licencing of digital music content |
| KMG Germany GmbH* | (b) | Germany | Music publishing |
| Kobalt America Holdings, Inc* | (c) | USA | Holding company |
| Kobalt Capital America, Inc | (c) | USA | Provision of investment advice |
| Kobalt Capital Limited* | (a) | UK | Provision of investment advice |
| Kobalt Capital Suisse Sarl* | (d) | Switzerland | Provision of investment advice |
| Kobalt Music Recordings Licensing Limited (formerly Kobalt Digital Licensing Limited)* | (a) | UK | Distribution and licensing of music recordings |
| Kobalt Music Recordings America Inc (formerly Kobalt Label Services America, Inc) | (c) | USA | Distribution and licensing of music recordings |
| Kobalt Music Recordings Limited (formerly Kobalt Label Services Limited)* | (a) | UK | Distribution and licensing of music recordings |
| Kobalt Music Recordings Licensing America, Inc. (formerly Kobalt Masters Licensing America Inc) | (c) | USA | Distribution and licensing of music recordings |
| Kobalt Music Administration Limited* | (a) | UK | Music publishing |
| Kobalt Music Publishing (Italia) Limited* | (a) | UK | Music publishing |
| Kobalt Music Publishing America Inc | (c) | USA | Music publishing |
| Kobalt Music Publishing Australia Pty Limited* | (e) | Australia | Music publishing |
| Kobalt Music Publishing Limited* | (a) | UK | Music publishing |
| Kobalt Music Royalties Sarl* | (f) | Luxembourg | Music publishing |
| Kobalt Music Royalties II Sarl* | (f) | Luxembourg | Music publishing |
| Kobalt Music Scandinavia AB* | (g) | Sweden | Music publishing |
| Kobalt Music Services America Inc | (c) | USA | Music publishing |
| Kobalt Music Services America II Inc | (c) | USA | Music publishing |
| Kobalt Music Services Australia Pty Limited* | (e) | Australia | Music publishing |
| Kobalt Music Services Limited* | (a) | UK | Music publishing |
| Kobalt Music Services II Limited* | (a) | UK | Music publishing |
| Kobalt Music Rights Agency Limited (formerly Rights Agency Limited) * | (a) | UK | Collection of neighbouring rights |
| Kobalt Neighbouring Rights Limited* | (a) | UK | Collection of neighbouring rights |
| Kojam Music Limited* | (a) | UK | Music publishing |
| Kobalt Music Publishing Malaysia Limited (formerly Kollektor Limited)* | (a) | UK | Music Publishing |
| Kobalt Music Publishing Worldwide Limited (formerly Kobalt STIM Aggregated Rights Limited)* | (a) | UK | Music publishing |
| Kobalt 2015 Limited* | (a) | UK | Music publishing |
| Kobalt Music Netherlands BV | (h) | Netherlands | Music publishing |
| Kobalt Music Netherlands Publishing B.V., (Formerly Fintage Publishing B.V) | (h) | Netherlands | Music publishing |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

13. SUBSIDIARIES (continued)

| Name | Address | Place of incorporation and operation | Principal activity |
|--|---------|--------------------------------------|-----------------------------------|
| Kobalt Music Netherlands International B.V., (Formerly Fintage Music International B.V.) | (h) | Netherlands | Music publishing |
| Kobalt Music Netherlands Publishing Australia B.V., (Formerly Fintage Publishing Australia B.V.) | (h) | Netherlands | Music publishing |
| Kobalt Music Netherlands Publishing Italiana B.V., (Formerly Fintage Publishing Italiana B.V.) | (h) | Netherlands | Music publishing |
| Kobalt Music Netherlands Direct B.V., (Formerly Fintage Direct B.V.) | (h) | Netherlands | Music publishing |
| Kobalt Music Netherlands Artists B.V., (Formerly Fintage Artists B.V.) | (h) | Netherlands | Collection of neighbouring rights |
| Kobalt Music Netherlands OH Records B.V., (Formerly Onehill Records B.V.) | (h) | Netherlands | Collection of neighbouring rights |
| Ktech Services Limited* | (a) | UK | Group service provision |
| American Music Rights Association Inc.* | (i) | USA | Collection society |
| AMRA London Limited | (j) | UK | Society service provision |
| Kobalt Music Publishing Asia Limited* | (k) | Hong Kong | Music publishing |
| Kobalt Music Services Asia Limited* | (k) | Hong Kong | Music publishing |

*Directly held by Kobalt Music Group Limited

- (a) 4 Valentine Place, London SE18QH, United Kingdom
- (b) Oberwallstrasse 1, 10117, Berlin, Germany
- (c) 2 Gansevoort St., 6th Floor, New York, NY 10014
- (d) c/o Fidulem S.A., Av. Mon-Repos 24, Case postale 625, 1001 Lausanne, Switzerland
- (e) Suite 203, 24-30 Springfield Avenue, Potts Point, Sydney, Australia
- (f) 5 Allee Scheffler, L-2520 Luxembourg
- (g) Fleminggatan 61NB PL2, 112 32 Stockholm, Sweden
- (h) Zutphenseweg 51 7418AH Deventer, The Netherlands
- (i) 2100 Ponce de Leon, Suite 1230, Coral Gables, Florida 33134, United States
- (j) 21-27 Lambs Conduit Street, London, WC1N 3GS, United Kingdom
- (k) C/o Haldanes Solicitors and Notaries 7F Ruttonjee House, 11 Duddell Street, Central, Hong Kong

14. INVESTMENTS

| | Group investments \$'000 |
|----------------------------|-----------------------------|
| Cost | |
| At 1 July 2015 | 5,020 |
| Foreign exchange movements | (745) |
| At 30 June 2016 | <u>4,275</u> |
| Fair value adjustment | 1,435 |
| Foreign exchange movements | (109) |
| At 30 June 2017 | <u>5,601</u> |

The Group holds a strategic, non-controlling interest of 3.3% in Kobalt Music Royalties SCA SICAV-SIF.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

15. TRADE AND OTHER RECEIVABLES

| | 2017 \$'000 | 2016 \$'000 |
|--|-----------------------|-----------------------|
| Other receivables | 106,439 | 70,615 |
| Less: provision for impairment of advances | (7,152) | (5,546) |
| Other receivables net | <u>99,287</u> | <u>65,069</u> |
| Prepayments | 3,162 | 2,446 |
| Accrued income | <u>88,088</u> | <u>60,166</u> |
| Total trade and other receivables | <u><u>190,537</u></u> | <u><u>127,681</u></u> |

Trade and other receivables are measured at unamortised amount receivable.

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

| | Provision \$'000 |
|---|-----------------------|
| Movement in allowance for doubtful debts: | |
| At 1 July 2015 | (4,178) |
| Charged to consolidated statement of comprehensive income during the period | <u>(1,368)</u> |
| At 30 June 2016 | (5,546) |
| Charged to consolidated statement of comprehensive income during the period | <u>(1,606)</u> |
| At 30 June 2017 | <u><u>(7,152)</u></u> |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

16. TRADE AND OTHER PAYABLES

As at 30 June 2017 the Group has contractual obligations to make future advances which are either of an unconditional nature (with a known timing and amount) or conditional on a future event. Unconditional obligations are all due by 31 December 2017 and for a total of \$0.52 million and have not been recognised.

The directors consider that the carrying amount of trade and other payables is approximately equal to their fair value.

| | 2017 \$'000 | 2016 \$'000 |
|---------------------------------------|----------------|----------------|
| Trade creditors | 572 | 949 |
| Social security and other taxes | 1,214 | 2,074 |
| Accruals | 214,996 | 144,166 |
| Deferred revenue | 42,295 | 8,996 |
| Other creditors | 2,148 | 6,134 |
| Total trade and other payables | 261,225 | 162,319 |

17. LOANS AND BORROWING

The book value and fair value of loans and borrowings are as follows:

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Secured borrowing at amortised cost | | |
| Bank loans | - | 17,550 |
| Total borrowings | - | 17,550 |
| Amount due for settlement within 12 months | - | 17,550 |

All borrowings are in US dollars.

The other principal features of the Group's borrowings are as follows:

As at the year end the Group has one short term bank loan facility, to the value of \$20m, at this point in time there was no drawn down outstanding on this facility. Since the year end the Group has signed a new debt facility for \$50 million with an interest charge of 3% over LIBOR. The loan is secured by a charge over certain Group assets.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

18. DEFERRED TAX

| | \$'000 |
|---------------------------------|------------|
| Deferred Tax Asset | |
| At 30 June 2016 | 945 |
| Exchange rate movements | (30) |
| Write off of deferred tax asset | (306) |
| At 30 June 2017 | <u>609</u> |

The amount of deferred tax asset provided in the financial statements is as follows:

| | GROUP | |
|--|---------------|----------------|
| | 2017 | 2016 |
| | \$'000 | \$'000 |
| Trading losses | <u>609</u> | <u>945</u> |
| Deferred Tax Liability | | |
| | | \$'000 |
| At 30 June 2016 | | - |
| Liability arising in year due to Fintage acquisition | | (3,800) |
| At 30 June 2017 | | <u>(3,800)</u> |

19. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2017 | 2016 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Lease payments under operating leases recognised as an expense in the year | 3,363 | 2,510 |
| | <u>3,363</u> | <u>2,510</u> |
| | | |
| | 2017 | 2016 |
| | \$'000 | \$'000 |
| Not later than one year | 4,480 | 4,063 |
| Later than one year and not later than five years | 14,858 | 13,480 |
| Later than five years | 11,749 | 553 |
| | <u>31,088</u> | <u>18,096</u> |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

19. OPERATING LEASE COMMITMENTS (continued)

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of six years and rentals are fixed for an average of four years with an option to extend for a further one year at the then prevailing market rate.

20. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise of cash and cash equivalents, trade receivables and trade payables which arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

The Group's activities expose it to a variety of financial risks including liquidity risk, and foreign currency exchange rate risk. It is the objective of the Group to minimise these risks where possible by maintaining and operating a robust control environment. Given the size of the Group, the directors have not delegated the responsibility of monitoring financial risk management to a separate sub-committee of the Board.

The Group currently does not use derivative financial instruments to manage its exposure to these risks.

All trade payables are due to be paid within twelve months of the Balance Sheet date. See note 16 for further details.

Liquidity risk

As regards liquidity, the Group's policy throughout the period has been to ensure the continuity of funding. The Group manages liquidity risk by maintaining adequate reserves and continuously monitoring forecast and actual cash flows.

Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group's policy is to conduct the majority of its sales in the local currency of each entity. Within each statutory entity, there is an amount of trading with overseas customers which are settled in foreign currencies. The Group monitors its exposure to currency by regularly reviewing its cash balances and matching these with future known and forecasted requirements.

The Group's policy is to align cash holdings and future expenses of its major currencies in order to provide some protection against adverse movements in foreign exchange rates. At year end the Group held cash as follows:

| Currency | 30 June 2017 | 30 June 2016 |
|----------------------|--------------|--------------|
| | \$'000 | \$'000 |
| United States Dollar | 20,226 | 28,280 |
| Great British Pound | 9,310 | 3,271 |
| Euro | 13,072 | 1,468 |
| Swedish Krona | 1,505 | 1,790 |
| Swiss Franc | 1,957 | 25 |
| Canadian Dollar | 649 | 9 |
| Australian Dollar | 1,548 | 303 |
| Hong Kong Dollar | 178 | - |

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders. In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or negotiate debt facilities.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. An FCA regulated subsidiary of the Group, KCL, is subject to externally imposed capital requirements. The required amount is £42k (\$56k) as of 30 June 2017 which is immaterial to the Group.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

20. FINANCIAL INSTRUMENTS (continued)

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- **Level 3:** inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

21. SHARE CAPITAL

Issued and fully paid:

| | 2017 | 2016 |
|--|------------|------------|
| | \$'000 | \$'000 |
| 6,389,148 (2016 - 6,466,595) ordinary shares of £0.05 each | 540 | 507 |
| 931,102 (2016 - 977,274) BA ordinary shares of £0.005 each | 6 | 8 |
| 315,341 (2016 - 315,341) BC ordinary shares of £0.005 each | 2 | 2 |
| 112,000 (2016 - 112,000) BD ordinary shares of £0.005 each | 1 | 1 |
| 77,750 (2016 - 77,750) BG ordinary shares of £0.005 each | 1 | 1 |
| 530,684 (2016 - 530,684) A preference shares of £0.05 each | 38 | 42 |
| 62,500 (2016 - 62,500) B preference shares of £0.05 each | 4 | 5 |
| 1,377,981 (2016 - 1,377,981) C preference shares of £0.10 each | 185 | 217 |
| 1,140,686 (2016 - nil) D preference shares of £0.10 each | 148 | - |
| | <u>925</u> | <u>783</u> |

During the year, share capital was increased by £2k (\$3k) by the issue of 35,517 ordinary shares.

In the year, the following shares were issued as a result of the exercise of options:

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

21. SHARE CAPITAL (continued)

| Date | Type of share | No. of shares |
|-------------------|--------------------------|---------------|
| 25 July 2016 | Ordinary shares of £0.05 | 1,500 |
| 25 July 2016 | Ordinary shares of £0.05 | 460 |
| 21 September 2017 | Ordinary shares of £0.05 | 420 |
| 23 December 2016 | Ordinary shares of £0.05 | 5,016 |
| 23 December 2016 | Ordinary shares of £0.05 | 5,004 |
| 16 August 2016 | Ordinary shares of £0.05 | 100 |
| 24 November 2016 | Ordinary shares of £0.05 | 100 |
| 13 March 2017 | Ordinary shares of £0.05 | 6,108 |
| 26 May 2017 | Ordinary shares of £0.05 | 2,369 |
| 26 May 2017 | Ordinary shares of £0.05 | 448 |
| 26 May 2017 | Ordinary shares of £0.05 | 448 |
| 26 May 2017 | Ordinary shares of £0.05 | 1,473 |
| 26 May 2017 | Ordinary shares of £0.05 | 6,415 |
| 26 May 2017 | Ordinary shares of £0.05 | 4,713 |
| 26 May 2017 | Ordinary shares of £0.05 | 943 |

There were 112,958 shares repurchased for cash during the year, par value of these shares was £5,648.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

21. SHARE CAPITAL (continued)

The rights, preferences and restrictions attaching to each class of share are as follows:

| Share class | Voting rights | Dividends rights | Capital distribution rights | Other |
|---------------|---|--|---|-------|
| Ordinary | Full | Subject to the preferred dividend rights attaching to the Series D preferred shares and the Series C preferred shares, full rights to participate in distribution of dividends | Subject to the rights of the Series A preferred shares, Series B preferred shares, Series C preferred shares and Series D preferred shares, full rights to participate in capital distributions; (d) the shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder | |
| Ordinary - BA | 20 Ordinary BA shares have the same voting rights as 1 Ordinary share | Subject to the preferred dividend rights attaching to the Series D preferred shares and the Series C preferred shares, Ordinary BA shareholders have the right to participate in distribution of dividends payable to that share class | Subject to the rights of the Series A preferred shares, Series B preferred shares, Series C preferred shares and Series D preferred shares, Ordinary BA shareholders have the right to participate in capital distributions, such distributions to be reduced by the threshold value of £6.00 per Ordinary BA share; (d) the shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder | |
| Ordinary - BB | 20 Ordinary BB shares have the same voting rights as 1 Ordinary share | Subject to the preferred dividend rights attaching to the Series D preferred shares and the Series C preferred shares, Ordinary BB shareholders have the right to participate in distribution of dividends payable to that share class | Subject to the rights of the Series A preferred shares, Series B preferred shares, Series C preferred shares and Series D preferred shares, Ordinary BB shareholders have the right to participate in capital distributions, such distributions to be reduced by the threshold value of £7.50 per Ordinary BB share; (d) the shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder | |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

21. SHARE CAPITAL (continued)

| | | | | |
|---------------|---|--|--|--|
| Ordinary – BC | 20 Ordinary BC shares have the same voting rights as 1 Ordinary share | Subject to the preferred dividend rights attaching to the Series D preferred shares and the Series C preferred shares, Ordinary BC shareholders have the right to participate in distribution of dividends payable to that share class | Subject to the rights of the Series A preferred shares, Series B preferred shares, Series C preferred shares and Series D preferred shares, Ordinary BC shareholders have the right to participate in capital distributions, such distributions to be reduced by the threshold value of £10.00 per Ordinary BC share; (d) the shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder | |
| Ordinary - BD | 20 ordinary BD shares have the same voting rights as 1 Ordinary share | Subject to the preferred dividend rights attaching to the Series D preferred shares and the Series C preferred shares, Ordinary BD shareholders have the right to participate in distribution of dividends payable to that share class | Subject to the rights of the Series A preferred shares, Series B preferred shares, Series C preferred shares and Series D preferred shares, Ordinary BD shareholders have the right to participate in capital distributions, such distributions to be reduced by the threshold value of £20.00 per Ordinary BD share; (d) the shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder | |
| Ordinary - BG | 20 ordinary BG shares have the same voting rights as 1 Ordinary share | Subject to the preferred dividend rights attaching to the Series D preferred shares and the Series C preferred shares, Ordinary BG shareholders have the right to participate in distribution of dividends payable to that share class | Subject to the rights of the Series A preferred shares, Series B preferred shares, Series C preferred shares and Series D preferred shares, Ordinary BG shareholders have the right to participate in capital distributions, such distributions to be reduced by the threshold value of £17.50 per Ordinary BG share | The shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

21. SHARE CAPITAL (continued)

| | | | | |
|--------------------|--|---|---|--|
| Series A Preferred | Full voting rights on an as converted basis into Ordinary shares | Subject to the preferred dividend rights attaching to the Series D preferred shares and the Series C preferred shares, full rights to participate in distribution of dividends | Subject to the rights of the Series D preferred shares and the Series C preferred shares, prior right to participate up to £12.00 per Series A preferred share in capital distributions, pari passu with right of Series B preferred shares to participate up to £20.00 per Series B preferred share, where the amount receivable per ordinary share, series a preferred share and Series B preferred share would otherwise be less than £20.00 per share | Convertible into Ordinary shares at any time and automatically on a listing; The shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder |
| Series B Preferred | Full voting rights on an as converted basis into Ordinary shares | Subject to the preferred dividend rights attaching to the Series D preferred shares and the Series C preferred shares, full rights to participate in distribution of dividends | Subject to the rights of the Series D preferred shares and the Series C preferred shares, prior right to participate up to £20.00 per Series B preferred share in capital distributions, pari passu with right of Series A preferred shares to participate up to £12.00 per Series A preferred Share, where the amount receivable per ordinary share, Series A preferred share and Series B preferred share would otherwise be less than £20.00 per share | Convertible into Ordinary shares at any time and automatically on a listing; The shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder |
| Series C Preferred | Full voting rights on an as converted basis into Ordinary shares | Subject to the preferred dividend rights attaching to the Series D preferred shares, prior right to receive dividend equal to the greater of 8% of the applicable Series C lp amount and the ordinary share dividend the holders would receive on an as converted basis | Subject to the prior rights of the Series D preferred shares, prior right (prior to the holders of Series A preferred shares, Series B preferred shares, Ordinary shares and B shares) to receive up to the Series C lp amount per Series C preferred share held on a capital distribution, otherwise right to receive same amount per share as holders of ordinary shares | Convertible into Ordinary shares at any time and automatically on a listing; The shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

21. SHARE CAPITAL (continued)

| Series D Preferred | Full voting rights on an as converted basis into Ordinary shares | Prior right to receive dividend equal to the greater of 8% of the applicable Series D Ip amount and the ordinary share dividend the holders would receive on an as converted basis | Prior right (prior to the holders of Series A preferred shares, Series B preferred shares, Series C preferred shares, Ordinary shares and B shares) to receive up to 1.25 times the Series D Ip amount per Series D preferred share held on a capital distribution, otherwise right to receive same amount per share as holders of Ordinary shares | Convertible into Ordinary shares at any time and automatically on a listing; The shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder |
|--------------------|--|--|--|--|
| | | | | |

22. SHARE PREMIUM

| | \$'000 |
|---|----------------|
| Balance at 1 July 2015 | 103,045 |
| Premium arising on issue of equity share | 1,362 |
| Balance at 30 June 2016 | 104,407 |
| Premium arising on issue of equity shares | 74,754 |
| Balance at 30 June 2017 | <u>179,161</u> |

23. RESERVES

The following describes the nature and purpose of each reserve within equity:

- share capital: nominal value of share capital issued;
- share premium: Amount subscribed for share capital in excess of nominal value;
- share option reserve: the cost to the Group of share options, less any consideration paid for the lapse of options;
- retained earnings: the company's results to date. The company has paid no dividends to date; and
- retranslation reserve: Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parent's presentational currency, being USD, are recognised directly in the translation reserve.

No gains or losses were transferred from translation reserves into profit or loss during the period.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

24. ACQUISITION OF SUBSIDIARY

On 22 September 2016, the group acquired 100 per cent of the issued share capital of the following companies as part of the Fintage acquisition:

- Fintage Artists B.V.
- Fintage Direct B.V.
- Fintage Music International B.V.
- Fintage Publishing B.V.
- Fintage Publishing Australia B.V.
- Fintage Publishing Italiana B.V.
- Onehill Records B.V.
- Rights Agency Limited

The companies are engaged in the business of administering music publishing, neighbouring rights and performance rights in master recordings on behalf of individual and corporate clients. At the time of acquisition, Fintage was the largest Neighbouring Rights agent business in the world (having acquired Rights Agency in 2011) as well as a small publishing administration business.

The Fintage entities were acquired as part of the strategic plan to expand the reach of the Kobalt neighbouring rights and publishing businesses.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

24. ACQUISITION OF SUBSIDIARY (continued)

| | \$'000 |
|--|-----------------|
| Trade and other receivables | 5 |
| Advances | 2,831 |
| Net intercompany balance | (63) |
| Prepayments and accrued income | 459 |
| Taxes and social security receivable | 132 |
| Cash and cash equivalents | 6,041 |
| Total assets | 9,405 |
| Royalties payable | (3,133) |
| Unprocessed royalties | (4,973) |
| General suspense | (1,574) |
| Taxes and social security | (125) |
| Accruals | (640) |
| Other payables | (91) |
| Total liabilities | (10,536) |
| Net liabilities acquired | (1,131) |
| Identifiable intangible assets | 26,538 |
| Goodwill | 8,321 |
| Deferred tax liability arising on acquisition | (3,800) |
| Foreign exchange difference on translation | 973 |
| Total consideration | 30,900 |
| Satisfied by: | |
| Cash | 30,900 |
| Total consideration transferred | 30,900 |
| Net cash outflow arising on acquisition: | |
| Cash consideration | (30,900) |
| Less: cash and cash equivalent balances acquired | 6,041 |
| | (24,859) |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

The goodwill of \$8,321,277 arising on acquisition consists of the synergies expected to be achieved by integrating these entities into the existing Kobalt neighbouring rights and publishing businesses.

Acquisition related costs (included in administration expenses) amount to \$1.3m.

25. RELATED PARTY DISCLOSURES

Balances and transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The remuneration of key management personnel, including directors is as follows:

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Key management personnel compensation | | |
| Wages and salaries | 7,763 | 5,879 |
| Employer pension contributions | 5 | - |
| Share-based payment charges | 680 | 1,049 |
| | <u>8,488</u> | <u>6,928</u> |
| | | |
| Directors' remuneration | | |
| Directors' emoluments | 4,527 | 4,330 |
| Company contributions to money purchase pension schemes | 2 | - |
| | <u>4,529</u> | <u>4,330</u> |
| | | |
| The number of directors who: | | |
| Are members of money purchase pension schemes | - | - |
| Exercised options over shares in the Company | - | - |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2017

25. RELATED PARTY DISCLOSURES (continued)

Emoluments of the highest paid director are as follows:

| | 2017 \$'000 | 2016 \$'000 |
|--------------------------------|----------------|----------------|
| Director's emoluments | 2,320 | 2,168 |
| Employer pension contributions | - | - |
| Share-based payment charges | - | 682 |
| | <u>2,320</u> | <u>2,850</u> |

The highest paid director did not exercise options during the year (2016 – none).

Kobalt Music Group Limited is the ultimate controlling party of the Group. No single individual or entity controls Kobalt Music Group Limited.

26. POST BALANCE SHEET EVENTS

On 30 October 2017 the Group debt facility was increased to \$50m from \$20m.

In addition to the Series D equity raise in May 2017, a further \$14m Series D was raised after the year end.

Kobalt entered into lease agreements for office space in London.

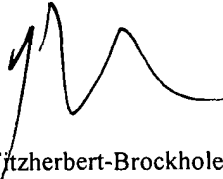
KOBALT MUSIC GROUP LIMITED

COMPANY BALANCE SHEET

As at 30 June 2017

| | Notes | 2017 \$'000 | 2016 \$'000 |
|---|-------|------------------|------------------|
| Fixed assets | | | |
| Tangible assets | 31 | 2,264 | 1,632 |
| Intangible | | 6,893 | 5,276 |
| Investment in subsidiaries | 29 | 33,709 | 8,547 |
| | | <u>42,866</u> | <u>15,455</u> |
| Current assets | | | |
| Debtors | 30 | 300,598 | 193,738 |
| Cash at bank and in hand | | 3,244 | 5,215 |
| Current tax asset | | 4,376 | - |
| | | <u>308,218</u> | <u>198,953</u> |
| Creditors: Amounts falling due within one year | | | |
| Creditors | 32 | (172,078) | (87,787) |
| Current tax liability | | (522) | (366) |
| Borrowings | | - | (17,507) |
| Accruals | | (2,632) | - |
| | | <u>(175,232)</u> | <u>(105,660)</u> |
| Net current assets | | <u>132,986</u> | <u>93,293</u> |
| Net assets | | <u>175,852</u> | <u>108,748</u> |
| Capital and reserves | | | |
| Called up share capital | 33 | 925 | 783 |
| Share premium account | | 179,161 | 104,407 |
| Share option reserve | 34 | 9,595 | 8,348 |
| Retranslation reserve | | (20,767) | (18,110) |
| Profit and loss account | | 6,938 | 13,320 |
| Shareholders' funds | | <u>175,852</u> | <u>108,748</u> |

The financial statements of Kobalt Music Group Limited, registered number 04018752, were approved by the Board of Directors and authorised for issue on 11 December 2017.


 J P Fitzherbert-Brockholes
 Director

KOBALT MUSIC GROUP LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

As at 30 June 2017

Equity attributable to equity holders of the Company

| | Share capital | Share premium account | Share option reserve | Retransla- tion reserve | Profit and loss account | Total equity |
|--|------------------|-----------------------------|----------------------------|-------------------------------|----------------------------|-----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| | 778 | 103,045 | 6,715 | (54) | 4,343 | 114,827 |
| Balance at 1 July 2015 | | | | | | |
| Profit for the year | - | - | - | - | 8,977 | 8,977 |
| Other comprehensive income for the year | - | - | - | (18,056) | - | (18,056) |
| Total comprehensive income for the year | - | - | - | (18,056) | 8,977 | (9,079) |
| Issue of share capital | 5 | 1,362 | - | - | - | 1,367 |
| Share-based payment transactions (note 9) | - | - | 1,729 | - | - | 1,729 |
| Share options waived for consideration | - | - | (96) | - | - | (96) |
| Balance at 30 June 2016 | 783 | 104,407 | 8,348 | (18,110) | 13,320 | 108,748 |
| Profit for the year | - | - | - | - | 3,767 | 3,767 |
| Other comprehensive income for the year | - | - | - | (2,657) | - | (2,657) |
| Total comprehensive income for the year | - | - | - | (2,657) | 3,767 | 1,110 |
| Issue of share capital | 142 | 74,754 | - | - | - | 74,896 |
| Share-based payment transactions (note 9) | - | - | 1,380 | - | - | 1,380 |
| Share options waived for consideration | - | - | (133) | - | - | (133) |
| Share repurchase from retained earnings | - | - | - | - | (10,149) | (10,149) |
| Balance at 30 June 2017 | 925 | 179,161 | 9,595 | (20,767) | 6,938 | 175,852 |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE COMPANY FINANCIAL STATEMENTS For the year ended 30 June 2017

27. SIGNIFICANT ACCOUNTING POLICIES

The separate financial statements of the company are presented as required by the Companies Act 2006. The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 30 June 2016 the company decided to adopt FRS 101 early and has undergone transition from reporting under UK GAAP to FRS 101 as issued by the Financial Reporting Council. Accordingly, the financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. This transition is not considered to have had a material effect on the financial statements.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement and certain related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as noted below.

Investment in subsidiaries

Investments in subsidiaries and associates are stated at cost less, where appropriate, provisions for impairment.

28. PROFIT FOR THE YEAR

As permitted by section 408 of the Companies Act 2006 the company has elected not to present its own profit and loss account for the year. The company reported a profit for the financial year ended 30 June 2017 of \$3.77m (2016: \$9m profit). The auditor's remuneration for audit and other services is disclosed in note 5 to the consolidated financial statements.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE COMPANY FINANCIAL STATEMENTS For the year ended 30 June 2017

29. INVESTMENTS IN SUBSIDIARIES

| COMPANY | Investment in subsidiary undertakings \$'000 | Investments in non-Group companies \$'000 | Total \$'000 |
|------------------|---|--|-----------------|
| Cost | | | |
| At 1 July 2016 | 4,276 | 4,271 | 8,547 |
| Foreign exchange | (484) | (109) | (593) |
| Additions | 24,320 | - | 24,320 |
| Fair value gain | - | 1,435 | 1,435 |
| At 30 June 2017 | <u>28,112</u> | <u>5,597</u> | <u>33,709</u> |

For details on investment in subsidiaries, refer to note 13 to the consolidated financial statements.

30. DEBTORS

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Amounts falling due within one year: | | |
| Amounts owed by Group undertakings | 297,669 | 189,501 |
| Other debtors | 1,650 | 3,353 |
| Prepayments | <u>1,279</u> | <u>884</u> |
| | <u>300,598</u> | <u>193,738</u> |

Amounts repayable from subsidiaries are short term and carry interest of 5 per cent (2016: 3 per cent) per annum charged on the outstanding loan balances.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE COMPANY FINANCIAL STATEMENTS For the year ended 30 June 2017

31. PROPERTY PLANT AND EQUIPMENT

| | Office equipment and fixtures \$'000 | Computer equipment \$'000 | Total \$'000 |
|--|--|---------------------------------|-----------------|
| Cost | | | |
| At 1 July 2015 | 1,569 | 2,139 | 3,708 |
| Additions | 83 | 829 | 912 |
| Foreign exchange movements | (233) | (317) | (550) |
| At 30 June 2016 | 1,419 | 2,651 | 4,070 |
| Additions | 67 | 1,363 | 1,430 |
| Foreign exchange movements | (10) | (83) | (93) |
| At 30 June 2017 | 1,476 | 3,931 | 5,407 |
| Accumulated depreciation and impairment | | | |
| At 1 July 2015 | 745 | 1,481 | 2,226 |
| Depreciation | 168 | 374 | 542 |
| Foreign exchange movements | (110) | (220) | (330) |
| At 30 June 2016 | 803 | 1,635 | 2,438 |
| Depreciation | 168 | 595 | 763 |
| Foreign exchange movements | 8 | (66) | (58) |
| At 30 June 2017 | 979 | 2,164 | 3,143 |
| Net book value | | | |
| At 1 July 2015 | 824 | 658 | 1,482 |
| At 30 June 2016 | 616 | 1,016 | 1,632 |
| At 30 June 2017 | 497 | 1,767 | 2,264 |

KOBALT MUSIC GROUP LIMITED

NOTES TO THE COMPANY FINANCIAL STATEMENTS For the year ended 30 June 2017

32. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2017 \$'000 | 2016 \$'000 |
|--------------------------------------|----------------|----------------|
| Amounts falling due within one year: | | |
| Amounts owed to Group undertakings | 171,874 | 85,430 |
| Trade creditors | 195 | 296 |
| Other creditors | 9 | 2,061 |
| | <u>172,078</u> | <u>87,787</u> |

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 45 days.

Amounts repayable to subsidiaries are short term and carry interest of 5 per cent (2016: 3 per cent) per annum charged on the outstanding loan balances.

33. SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

The movements on these items are disclosed in notes 21 and 22 to the consolidated financial statements

34. SHARE OPTION RESERVE

The movements in the reserve are disclosed in note 23 to the consolidated financial statements.