

Company registration number 08789165

DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2016

MGAGE EUROPE LIMITED



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MGAGE EUROPE LIMITED

COMPANY INFORMATION

| | |
|-----------------------------|--|
| Directors | S. Patel (resigned 10 February 2017) J. Continenza W.A. Bowlds (resigned 8 September 2016) D. Goldberg (appointed 8 September 2016) |
| Registered number | 08789165 |
| Registered office | 10th Floor 11 York Road London SE1 7NX |
| Independent auditors | Menzies LLP Chartered Accountants & Statutory Auditors Ashcombe House 5 The Crescent Leatherhead Surrey KT22 8DY |

MGAGE EUROPE LIMITED

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MGAGE EUROPE LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

Principal activities & business review

The Group is delighted to present its report on mGage Europe Limited covering its combined and consolidated results for the financial year ended 31 December 2016.

As the result of the 2015 acquisition by the Vivial company, mGage has benefited from greater opportunities for scale, growth and cost savings. Business divisions have come together across US and Europe to further strengthen our position as the number one mobile engagement provider in the market. mGage is growing its offerings across all verticals such as Retail, Banking/Finance, IT & Telco, Media, Charity, Gaming, Healthcare and its reseller partners continue to be an important channel for market growth.

In the trading year ended 31 December 2016, the Company generated revenues totalling £10,274,861, an increase of 8% on 2015. The Company achieved a Gross margin of 39% for the year. Trading has been a tale of two regions with the UK business exceeding Revenue and Ebitda budgets by 15% and 41% respectively, however the European office has suffered significantly against its budgets due to the Regulatory changes in the Premium Services market severely affecting Revenues.

In 2016 we continued to introduce new products and technologies while upgrading our infrastructure. mGage Europe Ltd with its parent company mGage LLC, also started a global program to build a Next Generation Gateway across North America and Europe to support new feature functionality and scale to support growth over the coming years. This is a significant investment for the mGage group and Vivial which is already delivering many benefits for its existing customers and attracting new prospective clients. Its main aims are to deliver best-in-class operational efficiency for domestic and international messaging traffic, ability to handle dramatic volume growth, and provides a full active geo-redundant solution, which is critical for Fortune 500 businesses.

The mGage group has also significantly invested in its SaaS-based Campaign Management Platform (Communicate PRO) and the Mobile Payments portfolio for brands and partners to increase their revenues and compliance commitments to their users. Investments and improvements have been made at both infrastructure and application level to improve customer experience and market demand.

Operational costs also continue to be reviewed and further savings are being planned for 2017.

The directors are satisfied with the level of turnover and together with the organic growth of legacy messaging and payments service, their intention is to continue to grow the business through increasing sales volume and new product introductions.

Principal risks and uncertainties

Directors consider that the principle risks and uncertainties facing the Company and a summary of the key measures taken to mitigate those risks are as follows:

Potential SMS volume decrease as brands seek to use "Over the top" (OTT) messaging applications.

We have not seen a decline in the brands sending messages to their customer base. On the contrary, we have engaged new brands who are seeking to use SMS, whilst messaging volume from existing clients continues to grow. We continue to educate our clients on the use of a multi-channel customer strategy that encapsulates all customer touchpoints, where SMS is a complementary player to the newer OTT applications.

Compliance Risk

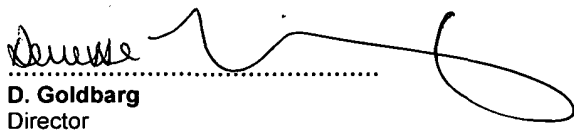
The Company provides mobile payment services that are regulated by Phone-Paid Services Authority (PSA) a Premium Rated Service Government Regulator and operates under rules set up by "Payforit"; which is supported by the 4 UK Mobile Network Operators- Vodafone, O2, Three and EE in conjunction with the micropayment industry, the industry trade association AIME and the regulators - Ofcom and PSA.

The regulatory environment is regularly changing and imposes significant demands on the resources of the Group. As the Company's activities expand, offering new products and penetrating more vertical industries, the regulatory demands will inevitably increase. The costs of compliance did increase as we saw significant changes to the regulatory customer flows, but we still see the opportunity for taking these flows into new vertical market applications thereby offsetting any incremental costs.

MGAGE EUROPE LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

This report was approved by the board on 3 April 2017 and signed on its behalf.


.....
D. Goldberg
Director

MGAGE EUROPE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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.

Results and dividends

The profit for the year, after taxation, amounted to £1,325,469 (2015 - loss £11,228,913).

The directors do not recommend the payment of a dividend.

Directors

The directors who served during the year were:

S. Patel (resigned 10 February 2017)

J. Continenza

W.A. Bowlds (resigned 8 September 2016)

D. Goldberg (appointed 8 September 2016)

Financial instruments

There are no matters concerning financial risk which are material for the assessment for the assets, liabilities, financial position and profit or loss of company.

Overseas branches

Included within the company is a branch based in the Netherlands.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

MGAGE EUROPE LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

Going concern

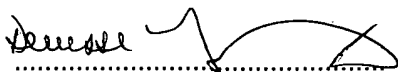
The directors consider the going concern basis to be appropriate having paid due regard to the Company's and its Group's projects results during the twelve months from the date the financial statements are approved and the anticipated cash flows, availability of bank facilities and mitigating actions that can be taken during that year.

Vivial Inc. has confirmed that they will make available to the company, funding over the next twelve months, to enable the company to discharge all their debits and liabilities as they fall due.

Auditors

The auditors, Menzies LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 3 April 2017 and signed on its behalf.



D. Goldberg
Director

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MGAGE EUROPE LIMITED

We have audited the financial statements of MGage Europe Limited for the year ended 31 December 2016, set out on pages 7 to 21. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2006 and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 Auditors' 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.

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit or loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter 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 those financial statements and such reports have been prepared in accordance with applicable legal requirements.

In the light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MGAGE
EUROPE LIMITED (CONTINUED)**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Menzies LLP

Caroline Milton (Senior Statutory Auditor)
for and on behalf of
Menzies LLP
Chartered Accountants & Statutory Auditors
Ashcombe House
5 The Crescent
Leatherhead
Surrey
KT22 8DY

Date: *3 April 2017*

MGAGE EUROPE LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

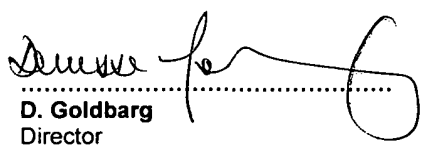
| | Note | 2016 £ | 2015 £ |
|--|------|--------------------|---------------------|
| Turnover | 5 | 10,274,861 | 9,489,656 |
| Cost of sales | | (6,314,226) | (5,475,873) |
| Gross profit | | 3,960,635 | 4,013,783 |
| Administrative expenses | | (5,242,402) | (5,123,593) |
| Operating loss | 6 | (1,281,767) | (1,109,810) |
| Interest receivable and similar income | | 11,474 | 20,030 |
| Interest payable and expenses | 9 | (1,793) | - |
| Loss before tax | | (1,272,086) | (1,089,780) |
| Tax on loss | 10 | 23,043 | 89,272 |
| Loss for the year | | (1,249,043) | (1,000,508) |
| Exceptional items | | (76,426) | (10,228,405) |
| Other comprehensive income for the year | | (76,426) | (10,228,405) |
| Total comprehensive income for the year | | (1,325,469) | (11,228,913) |

MGAGE EUROPE LIMITED
REGISTERED NUMBER:08789165

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

| | Note | 2016 £ | 2015 £ |
|--|------|-------------------|-------------------|
| Fixed assets | | | |
| Intangible assets | 11 | 1,263,096 | 1,924,043 |
| Tangible assets | 12 | 60,167 | 58,453 |
| | | <u>1,323,263</u> | <u>1,982,496</u> |
| Current assets | | | |
| Debtors: amounts falling due within one year | 14 | 8,426,972 | 8,573,662 |
| Cash at bank and in hand | | 4,637,124 | 3,445,663 |
| | | <u>13,064,096</u> | <u>12,019,325</u> |
| Creditors: amounts falling due within one year | 15 | (13,436,404) | (11,725,397) |
| Net current (liabilities)/assets | | <u>(372,308)</u> | <u>293,928</u> |
| Total assets less current liabilities | | <u>950,955</u> | <u>2,276,424</u> |
| Net assets | | <u>950,955</u> | <u>2,276,424</u> |
| Capital and reserves | | | |
| Called up share capital | 17 | 22 | 22 |
| Profit and loss account | 18 | 950,933 | 2,276,402 |
| | | <u>950,955</u> | <u>2,276,424</u> |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
3 April 2017


D. Goldbarg
Director

The notes on pages 10 to 21 form part of these financial statements.

MGAGE EUROPE LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

| | Called up share capital | Profit and loss account | Total equity |
|--|----------------------------|----------------------------|--------------------|
| | £ | £ | £ |
| At 1 January 2016 | 22 | 2,276,402 | 2,276,424 |
| Loss for the year | - | (1,249,043) | (1,249,043) |
| Extraordinary item | - | (76,426) | (76,426) |
| Total comprehensive income for the year | - | (1,325,469) | (1,325,469) |
| At 31 December 2016 | 22 | 950,933 | 950,955 |

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

| | Called up share capital | Share premium account | Profit and loss account | Total equity |
|--|----------------------------|-----------------------------|----------------------------|---------------------|
| | £ | £ | £ | £ |
| At 1 January 2015 | 22 | 22,994,852 | (9,489,537) | 13,505,337 |
| Comprehensive income for the year | | | | |
| Loss for the year | - | - | (1,000,508) | (1,000,508) |
| Extraordinary item | - | - | (10,228,405) | (10,228,405) |
| Total comprehensive income for the year | - | - | (11,228,913) | (11,228,913) |
| Capital reduction | - | (22,994,852) | 22,994,852 | - |
| Total transactions with owners | - | (22,994,852) | 22,994,852 | - |
| At 31 December 2015 | 22 | - | 2,276,402 | 2,276,424 |

The notes on pages 10 to 21 form part of these financial statements.

MGAGE EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. Statement of compliance

These financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'.

2. Company information

mGage Europe Limited is a limited company incorporated and domiciled in England within the United Kingdom. The address of its registered office and principal place of business is disclosed on page 1.

3. Accounting policies

3.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 4).

3.2 Consolidation

The entity has taken advantage of the exemption from preparing consolidated financial statements contained in Section 401 of the Companies Act 2006 on the basis that the group results will be included in Vivial Inc.'s consolidated accounts.

3.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

MGAGE EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. Accounting policies (continued)

3.4 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed five years.

Amortisation is provided on the following bases:

| | | |
|-----------------------|---|--------------------|
| Intellectual property | - | 33 % straight line |
|-----------------------|---|--------------------|

3.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

| | | |
|-----------------------|---|--------------------|
| Leasehold property | - | Over life of lease |
| Fixtures and fittings | - | 33 % straight line |
| Office equipment | - | 33 % straight line |

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

3.6 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

The Company has taken advantage of the optional exemption available on transition to FRS 102 which allows lease incentives on leases entered into before the date of transition to the standard 01 January 2015 to continue to be charged over the period to the first market rent review rather than the term of the lease.

MGAGE EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. Accounting policies (continued)

3.7 Impairment of fixed assets

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

For the purpose of impairment testing, when it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that largely independent of the cash inflows from other assets or groups of assets.

3.8 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in unlisted Company shares, whose market value can be reliably determined, are remeasured to market value at each balance sheet date. Gains and losses on remeasurement are recognised in the Statement of Comprehensive Income for the period. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

3.9 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

3.10 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Included within the cash balances is a trustee account with a total of £1,502,619 which is held by mGage Europe Limited on behalf of the beneficiaries.

3.11 Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

3.12 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

MGAGE EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. Accounting policies (continued)

3.13 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

3.14 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

3.15 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

3.16 Taxation

Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

MGAGE EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

4. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Depreciation, amortisation and residual values:

The Directors have reviewed the asset lives and associated residual values of all fixed asset classes and have concluded that asset lives and residual values are appropriate.

5. Turnover

An analysis of turnover by class of business is as follows:

| | 2016 £ | 2015 £ |
|-----------------------|-------------------|------------------|
| Rendering of Services | 10,274,861 | 9,489,656 |
| | <u>10,274,861</u> | <u>9,489,656</u> |

Analysis of turnover by country of destination:

| | 2016 £ | 2015 £ |
|-------------------|-------------------|------------------|
| United Kingdom | 7,288,562 | 6,980,978 |
| Rest of the world | 2,986,299 | 2,508,678 |
| | <u>10,274,861</u> | <u>9,489,656</u> |

6. Operating loss

The operating loss is stated after charging:

| | 2016 £ | 2015 £ |
|---|------------------|------------------|
| Depreciation of tangible fixed assets | 47,646 | 111,428 |
| Exchange differences | 43,816 | 28,871 |
| Amortisation of intangible assets, including goodwill | 880,735 | 538,044 |
| Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements | 21,500 | 20,000 |
| | <u>1,000,000</u> | <u>1,000,000</u> |

MGAGE EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

7. Employees

Staff costs, including directors' remuneration, were as follows:

| | 2016 £ | 2015 £ |
|--------------------|------------------|------------------|
| Wages and salaries | 2,838,844 | 3,263,414 |
| | <u>2,838,844</u> | <u>3,263,414</u> |

The average monthly number of employees, including the directors, during the year was as follows:

| | 2016 No. | 2015 No. |
|----------------------|-------------|-------------|
| Production staff | 13 | 16 |
| Distribution staff | 18 | 18 |
| Administrative staff | 12 | 15 |
| Management staff | 2 | 2 |
| | <u>45</u> | <u>51</u> |

8. Directors' remuneration

| | 2016 £ | 2015 £ |
|-----------------------|----------------|----------------|
| Directors' emoluments | 236,095 | 190,345 |
| | <u>236,095</u> | <u>190,345</u> |

The highest paid director received remuneration of £236,095 (2015 - £190,345).

9. Interest payable and similar charges

| | 2016 £ | 2015 £ |
|-----------------------|--------------|-----------|
| Bank interest payable | 1,793 | - |
| | <u>1,793</u> | <u>-</u> |

MGAGE EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

10. Taxation

| | 2016 £ | 2015 £ |
|--|-----------------|-----------------|
| Corporation tax | | |
| Adjustments in respect of previous periods | (23,043) | (89,272) |
| | <u>(23,043)</u> | <u>(89,272)</u> |
| Total current tax | <u>(23,043)</u> | <u>(89,272)</u> |

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2015 - *lower than*) the standard rate of corporation tax in the UK of 19% (2015 - 20%). The differences are explained below:

| | 2016 £ | 2015 £ |
|--|-----------------|-----------------|
| Profit on ordinary activities before tax | (1,272,086) | (11,228,913) |
| (Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2015 - 20%) | (241,696) | (2,291,543) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 3,557 | 113,801 |
| Capital allowances for year in excess of depreciation | (13,871) | - |
| Adjustments to tax charge in respect of prior periods | (23,043) | (89,272) |
| Other adjustments | (5,393) | 44,426 |
| Deferred tax asset not recognised | 257,403 | 2,133,316 |
| Total tax charge for the year | <u>(23,043)</u> | <u>(89,272)</u> |

Factors that may affect future tax charges

At 31 December 2016 the company had trading losses carried forward of approximately £20,700,000 (2015: £19,400,000). No deferred tax asset has been provided in respect of the losses because of the current uncertainty over the utilisation.

MGAGE EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

11. Intangible assets

| | Intellectual property £ |
|-----------------------|-------------------------------|
| Cost | |
| At 1 January 2016 | 9,565,927 |
| Additions | 219,788 |
| At 31 December 2016 | <u>9,785,715</u> |
| Amortisation | |
| At 1 January 2016 | 7,641,884 |
| Charge for the year | 880,735 |
| At 31 December 2016 | <u>8,522,619</u> |
| Net book value | |
| At 31 December 2016 | <u>1,263,096</u> |
| At 31 December 2015 | <u>1,924,043</u> |

MGAGE EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

12. Tangible fixed assets

| | Short-term leasehold property £ | Fixtures and fittings £ | Equipment £ | Total £ |
|---------------------------------------|--|-------------------------------|----------------|------------|
| Cost or valuation | | | | |
| At 1 January 2016 | 77,411 | 18,508 | 427,576 | 523,495 |
| Additions | - | 85 | 47,728 | 47,813 |
| Disposals | - | - | (2,875) | (2,875) |
| At 31 December 2016 | 77,411 | 18,593 | 472,429 | 568,433 |
| Depreciation | | | | |
| At 1 January 2016 | 77,411 | 17,593 | 370,038 | 465,042 |
| Charge for the period on owned assets | - | 713 | 45,386 | 46,099 |
| Disposals | - | - | (2,875) | (2,875) |
| At 31 December 2016 | 77,411 | 18,306 | 412,549 | 508,266 |
| Net book value | | | | |
| At 31 December 2016 | - | 287 | 59,880 | 60,167 |
| At 31 December 2015 | - | 915 | 57,538 | 58,453 |

MGAGE EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

13. Investments

The company holds a 100% shareholding in mGage Athens Private Company, a company incorporated in Greece. The principal activity of that entity is that of services provided in relation to mobile engagement activities. The value of the investment at 31 December 2016 is £nil (2015: £nil).

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

| Name | Class of shares | Holding |
|------------------------------|-----------------|---------|
| mGage Athens Private Company | Ordinary | 100 % |

The aggregate of the share capital and reserves as at 31 December 2016 and of the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

| | Aggregate of share capital and reserves € | Profit/(loss) € |
|------------------------------|--|--------------------|
| mGage Athens Private Company | 224,275 | 1,055 |
| | <u>224,275</u> | <u>1,055</u> |

14. Debtors

| | 2016 £ | 2015 £ |
|------------------------------------|------------------|------------------|
| Trade debtors | 3,083,208 | 2,517,532 |
| Amounts owed by group undertakings | 161,655 | 349,313 |
| Other debtors | 59,275 | 160,601 |
| Prepayments and accrued income | 5,122,834 | 5,546,216 |
| | <u>8,426,972</u> | <u>8,573,662</u> |

MGAGE EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

15. Creditors: Amounts falling due within one year

| | 2016 £ | 2015 £ |
|------------------------------------|-------------------|-------------------|
| Trade creditors | 4,034,427 | 4,212,431 |
| Amounts owed to group undertakings | 116,857 | - |
| Taxation and social security | 810,229 | 192,786 |
| Other creditors | 1,015,938 | 641,466 |
| Accruals and deferred income | 7,458,953 | 6,678,714 |
| | <u>13,436,404</u> | <u>11,725,397</u> |

16. Financial instruments

| | 2016 £ | 2015 £ |
|---|--------------------|--------------------|
| Financial assets | | |
| Financial assets that are debt instruments measured at amortised cost | 8,125,055 | 6,473,109 |
| | <u>8,125,055</u> | <u>6,473,109</u> |
| Financial liabilities | | |
| Financial liabilities measured at amortised cost | (5,050,368) | (5,046,683) |
| | <u>(5,050,368)</u> | <u>(5,046,683)</u> |

Financial assets measured at amortised cost comprise of trade debtors, other debtors and accrued income.

Financial liabilities measured at amortised cost comprise of trade creditors, other creditors and accruals.

17. Share capital

| | 2016 £ | 2015 £ |
|---|-----------|-----------|
| Shares classified as equity | | |
| Allotted, called up and fully paid | | |
| 2,204 Ordinary shares of £0.01 each | 22 | 22 |
| | <u>22</u> | <u>22</u> |

18. Reserves

Profit and loss account

The profit and loss account consists of retained earnings or losses to date.

MGAGE EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

19. Commitments under operating leases

At 31 December 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

| | 2016 £ | 2015 £ |
|--|----------------|----------------|
| Not later than 1 year | 318,048 | 257,744 |
| Later than 1 year and not later than 5 years | 95,304 | 226,384 |
| | <u>413,352</u> | <u>484,128</u> |

20. Related party transactions

In accordance with the exemption allowed by Financial Reporting Standard 102 transactions with Group companies have not been disclosed in these financial statements.

Key management personnel include all persons that have authority and responsibility for planning, directing and controlling the activities of the Company. The total compensation paid to key management personnel for services provided to the company was £236,095 (2015: £190,345).

21. Controlling party

The Company's immediate undertaking is mGage LLC and the company's ultimate parent undertaking is Vivial Inc., a company incorporated in USA.