

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2018

U.S. DOLLARS IN THOUSANDS

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## REPORT OF INDEPENDENT AUDITORS

To the Shareholders of

### ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

We have audited the accompanying consolidated balance sheets of Online Media Solutions Ltd. ("the Company") and its subsidiaries as of March 31, 2018 and 2017, the related consolidated statements of comprehensive income, changes in shareholders' equity and the consolidated statements of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Israel including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of March 31, 2018 and 2017, and the consolidated results of their operations and the consolidated cash flows for the years then ended, in conformity with United States generally accepted accounting principles.

Tel-Aviv, Israel  
June 26, 2018

*Kost Forer Gabbay and Kasierer*  
KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

|   | March 31,         |                  |
|---|-------------------|------------------|
|   | <u>2018</u>       | <u>2017</u>      |
| ASSETS  |                   |                  |
| CURRENT ASSETS:   |                   |                  |
| Cash and cash equivalents                               | \$ 6,779          | \$ 6,635         |
| Restricted cash   | 564               | 564              |
| Trade receivables                                       | 48,091            | 43,501           |
| Other accounts receivable and prepaid expenses (Note 5) | <u>25,784</u>     | <u>13,648</u>    |
| <u>Total current assets</u>                             | <u>81,218</u>     | <u>64,348</u>    |
| LONG-TERM ASSETS:                                       |                   |                  |
| Long-term loans   | 6,061             | 6,015            |
| Loans to a related party (Note 6)                       | 2,387             | 1,951            |
| Marketable securities                                   | -                 | 178              |
| Investments in Affiliates (Note 7)                      | 11,492            | 11,492           |
| Severance pay fund                                      | -                 | 258              |
| Property and equipment, net (Note 8)                    | 437               | 266              |
| Software development costs (Note 9)                     | <u>25,250</u>     | <u>12,843</u>    |
| <u>Total long-term assets</u>                           | <u>45,627</u>     | <u>33,003</u>    |
| <u>Total assets</u>                                     | <u>\$ 126,845</u> | <u>\$ 97,351</u> |

The accompanying notes are an integral part of the consolidated financial statements.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

|   | March 31,         |                  |
|---|-------------------|------------------|
|   | 2018              | 2017             |
| LIABILITIES AND SHAREHOLDERS' EQUITY                  |                   |                  |
| CURRENT LIABILITIES:                                  |                   |                  |
| Trade payables  | \$ 3,494          | \$ 2,705         |
| Employees and payroll accruals                        | 309               | 256              |
| Other accounts payable and accrued expenses (Note 10) | 2,248             | 1,982            |
| <u>Total current liabilities</u>                      | <u>6,051</u>      | <u>4,943</u>     |
| LONG-TERM LIABILITIES:                                |                   |                  |
| Accrued severance pay                                 | 712               | 712              |
| Deferred tax liability, net                           | 447               | 474              |
| <u>Total long term liabilities</u>                    | <u>1,159</u>      | <u>1,186</u>     |
| COMMITMENTS AND CONTINGENCIES                         |                   |                  |
| SHAREHOLDERS' EQUITY                                  |                   |                  |
| Ordinary shares                                       | 38                | 38               |
| Additional paid-in capital                            | 6,331             | 6,331            |
| Retained earnings                                     | 113,266           | 84,853           |
| <u>Total equity</u>                                   | <u>119,635</u>    | <u>91,222</u>    |
| <u>Total liabilities and equity</u>                   | <u>\$ 126,845</u> | <u>\$ 97,351</u> |

The accompanying notes are an integral part of the consolidated financial statements.

|   |  |  |
|---|--|--|
| <p>June 26, 2018<br/>Date of approval of the<br/>financial statements</p> | <br><p>Shahar Shaharabany<br/>Chief Financial Officer</p> | <br><p>Jacob Nizri<br/>Director and Chief Executive<br/>Officer</p> |
|---|--|--|

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

|  | <u>Year ended March 31,</u> |               |
|--|-----------------------------|---------------|
|  | <u>2018</u>                 | <u>2017</u>   |
| Revenues                                   | \$ 135,121                  | \$ 132,220    |
| Cost of revenues                           | <u>80,228</u>               | <u>77,642</u> |
| Gross profit                               | <u>54,893</u>               | <u>54,578</u> |
| Operating expenses:                        |                             |               |
| Research and development cost amortization | 2,732                       | 2,262         |
| Sales and marketing                        | 6,679                       | 6,179         |
| General and administrative                 | <u>8,104</u>                | <u>8,756</u>  |
| <u>Total operating expenses</u>            | <u>17,515</u>               | <u>17,197</u> |
| Operating Profit                           | 37,378                      | 37,381        |
| Financial income, net                      | -                           | 31            |
|  | <u>37,378</u>               | <u>37,412</u> |
| Profit (loss) before taxes on income       | 37,378                      | 37,412        |
| Income Tax                                 | (8,965)                     | (9,911)       |
|  | <u>28,413</u>               | <u>27,501</u> |
| Comprehensive income (loss)                | 28,413                      | 27,501        |

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands (except share data)

|                              | Ordinary shares |        | Additional<br>paid-in<br>capital | Change in<br>unrealized<br>gains on<br>marketable<br>securities | Retained<br>earnings | Total shareholders'<br>equity |
|------------------------------|-----------------|--------|----------------------------------|---|----------------------|-------------------------------|
|                              | Number          | Amount |                                  |   |                      |                               |
| Balance as of April 1, 2016  | 14,294,123      | \$ 38  | 6,331                            | \$ -  | \$ 57,352            | \$ 63,721                     |
| Net income                   | -               | -      | -                                | -   | 27,501               | 27,501                        |
| Balance as of March 31, 2017 | 14,294,123      | 38     | 6,331                            | -   | 84,853               | 91,222                        |
| Net income                   | -               | -      | -                                | -   | 28,413               | 28,413                        |
| Balance as of March 31, 2018 | 14,294,123      | \$ 38  | 6,331                            | \$ -  | \$ 113,266           | \$ 119,635                    |

The accompanying notes are an integral part of the consolidated financial statements.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

|   | <u>Year ended March 31,</u> |                 |
|---|-----------------------------|-----------------|
|   | <u>2018</u>                 | <u>2017</u>     |
| <u>Cash flows from operating activities:</u>                                      |                             |                 |
| Net income (loss)   | \$ 28,413                   | \$ 27,501       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                             |                 |
| Depreciation and amortization   | 2,732                       | 2,262           |
| Increase in trade receivables   | (4,590)                     | (15,371)        |
| Increase in other accounts receivable and prepaid expenses                        | (12,136)                    | (10,008)        |
| (Decrease) increase in deferred taxes liability, net                              | (27)                        | (27)            |
| Increase (decrease) in trade payables   | 789                         | (36)            |
| Increase (decrease) in employees and payroll accruals                             | 53                          | 53              |
| Increase (decrease) in other accounts payable                                     | 266                         | 494             |
| Decrease in accrued severance pay, net  | 258                         | 61              |
| Changes in marketable securities  | 178                         | 172             |
| Capital loss  | -                           | -               |
| Net cash provided by operating activities   | <u>15,936</u>               | <u>5,101</u>    |
| <u>Cash flows from investing activities:</u>                                      |                             |                 |
| Purchase of property and equipment  | (271)                       | (72)            |
| Proceeds from Long-term gains   | (46)                        | (2,373)         |
| Loan provided to a related party  | (436)                       | 564             |
| Proceeds from restricted cash   | -                           | (42)            |
| Capitalization of software development costs                                      | (15,039)                    | (2,951)         |
| Net cash used in investing activities   | <u>(15,792)</u>             | <u>(4,874)</u>  |
| Increase (decrease) in cash and cash equivalents                                  | 144                         | 227             |
| Cash and cash equivalents at the beginning of the year                            | <u>6,635</u>                | <u>6,408</u>    |
| Cash and cash equivalents at the end of the year                                  | <u>\$ 6,779</u>             | <u>\$ 6,635</u> |

## ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands

#### NOTE 1:- GENERAL

- a. Online Media Solutions Ltd. ("the Company") was incorporated under the laws of the State of Israel, and commenced operations in 1998. The Company provides full service of performance-driven ad-serving technology and quality media. The Company is a wholly owned subsidiary of Brightcom Group (formerly : Lycos Internet Limited) (formerly Ybrant Digital Limited) (the "Parent" or "BCM"), a public company traded on Bombay Stock Exchange under the ticker LYCO.
- b. The Company and its subsidiaries (together the "Group"), Oridian Inc., Ybrant Digital GMBH, Brightcom Asia Pte. Ltd., and Ybrant Digital France provide complete online media solutions to advertisers and publishers worldwide. During 2011 Ybrant Digital France ceased its operational activity. During 2013 Ybrant Digital GMBH ceased its operational activity.  
The Company holds certain shares in certain affiliates companies (see Note 7).

- c. Definitions:

Brightcom Group (Formerly: Lycos Internet Limited) (formerly: Ybrant Digital Limited) (formerly: Ybrant Technologies Limited) ("Lycos" or "BCM") - is a related party.

Subsidiaries of the Parent are related parties and referred to as "Affiliates".

The Company held certain investments in affiliates in different geographical locations and presents them as investments.

#### NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. Use of estimates:
- b.

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

- b. Financial statements in U.S. dollars:

A substantial portion of the Company's and its non-U.S. subsidiaries' revenues are generated in U.S. dollar ("dollars"). In addition, most of the Company's and its subsidiaries' costs are incurred in dollars. The Company's management believes that the U.S dollar is the currency of the primary economic environment in which the Company and its Subsidiaries operate. Thus, the functional and reporting currency of the Company and its subsidiaries is the U.S. dollar.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's transactions and balances denominated in U.S. dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured into U.S. dollars in accordance with ASC 830. All transaction gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statement of operations as financial income or expenses, as appropriate.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and balances, including profits from intercompany sales not yet realized outside the Group, have been eliminated upon consolidation. Non-controlling interests of subsidiaries represent the non-controlling shareholders share of the total comprehensive income of the subsidiaries and fair value of the net assets upon the acquisition of the subsidiaries. The non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company.

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less.

e. Restricted cash:

Restricted cash is primarily invested in highly liquid deposits, which are pledged in favor of the banks which provide to the Company guarantees with respect to office lease agreements, credit card and financial instrument transactions.

f. Long-term lease deposits

Long-term deposits include long-term deposits for motor vehicles under operating leases, presented at their cost.

g. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method, over the estimated useful lives of the assets, at the following annual depreciation rates:

|                                    | %                          |
|------------------------------------|----------------------------|
| Computers and peripheral equipment | 33                         |
| Office furniture and equipment     | 7 - 15                     |
| Leasehold improvements             | Over the term of the lease |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Software development costs

According to the principles set forth in ASC 350-40, "Internal use software", the Company distinguishes between software development costs incurred in the different stages.

Costs incurred during the process of preliminary project stage are charged to expenses as incurred.

Costs incurred during the process of application development stage are capitalized. Costs incurred during the process of post implementation-operation stage are charged to expense as incurred.

The costs of computer software developed or obtained for internal use are amortized on a straight-line basis unless another systematic and rational basis is more representative of the software's use. Amortization has begun when the computer software was ready for its intended use which is usually after a period of 6 months.

Amortization costs amounted to \$2,632 and \$2,154 for the year ended March 31, 2018 and 2017, respectively.

The Company assesses the probability of the development, completion and the potential of these capitalized costs on a regular basis by determining whether the amortization of the asset over its remaining life can be recovered through undiscounted future operating cash flows from the specific software product used. During the years ended March 31, 2018 and 2017, no impairment to the capitalized costs were identified

i. Impairment of long-lived assets and intangible assets:

The Company's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets.

If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

No impairment losses for the years ended March 31, 2018 and 2017 were identified.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Income taxes:

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". This Statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

Deferred tax liabilities and assets are classified as current or non-current based on the classification of the related asset or liability for financial reporting, or according to the expected reversal dates of the specific temporary differences if not related to an asset or liability for financial reporting.

ASC 740 contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative basis) likely to be realized upon ultimate settlement. The Company has some measurement differences in amounts that need to be credit from revenue.

k. Revenue recognition:

The Company generates revenues from advertising services.

Revenues are recognized in accordance with ASC 605 ("Revenue Recognition"), upon execution of advertisements campaigns, when persuasive evidence of an arrangement exists, fee is fixed or determinable, and when collectability is probable. If one of the above criteria is not met, revenue is recognized on a cash basis.

The Company records revenues based on the gross amount collected from its customers and pays third parties a fee for providing advertising space.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

l. Concentrations of credit risks:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, restricted cash, marketable securities and trade receivables.

Cash, cash equivalents and restricted cash are invested in major banks in Israel and the United States. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Generally these deposits may be redeemed upon demand and, therefore, bear low risk.

The Company's marketable securities include investments in equity. The Company's investment policy limits the amount the Company may invest in any one type of issuer, thereby reducing credit risk concentrations. In addition, the policy establishes minimum credit ratings for all types of securities.

The Company's trade receivables are derived from sales to worldwide customers. The Company performs ongoing credit evaluations of its customers.

As of March 31, 2018, the Company has no off-balance sheet concentration such as, foreign exchange contracts, option contracts or other foreign hedging arrangements.

m. Severance pay:

The Company's liability for severance pay for its Israeli employees is calculated pursuant to Israel's Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Israeli employees are entitled to severance equal to one month's salary for each year of employment or a portion thereof. The Company's liability for its Israeli employees, not under section 14 discussed below, is partially provided by monthly deposits with insurance policies and by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet.

The deposited funds include profits accumulated up to the balance sheet date and may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies, and includes immaterial profits.

Some of the Company's Israeli employees are under section 14 of the Severance Compensation Act, 1963 ("Section 14"). Pursuant to Section 14, employees included under this section, are entitled only to monthly deposits, at a rate of 8.33% of their monthly salary, made in the employee's name with insurance companies. Payments in accordance with Section 14 release the Company from any future severance payments in respect of those employees. The fund is made available to the employee at the time the employer-employee relationship is terminated, regardless of cause of termination.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The severance pay liabilities and deposits under section 14 are not reflected in the balance sheet as the severance pay risks have been irrevocably transferred to the severance funds.

n. Fair value of financial instruments:

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

The carrying amount reported in the balance sheet for cash and cash equivalents, restricted cash, trade receivables, other accounts receivable and prepaid expenses, trade payables, employees and payroll accruals and other accounts payable and accrued expenses approximate their fair value due to the short-term maturities of such instruments.

The Company applied ASC 820 "Fair Value Measurements and Disclosures" which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs, other than quoted prices within Level 1, that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

o. Investment in affiliate:

Investment in a company in which the Company is able to exercise significant influence, but that is not a consolidated subsidiary is accounted for using the equity method in accordance with ASC 323, "Investments - Equity Method and Joint Ventures".

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company accounts for its investment in an affiliate in which the Company holds less than 20%, using the cost method in accordance with ASC 325-20 "Cost Method Investment" since the Company does not have the ability to exercise significant influence over operating and financial policies of this investee.

The Company's investment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. During the year ended March 31, 2018 and 2017 no impairment losses were identified.

NOTE 3:- TRANSACTIONS WITH RELATED PARTIES AND AFFILIATES

Certain of the Company's revenues are generated from its Affiliates.

The following balances with affiliates are included in the consolidated financial statements:

|                             | <u>March 31,</u> |             |
|-----------------------------|------------------|-------------|
|                             | <u>2018</u>      | <u>2017</u> |
| Affiliates Trade receivable | \$ 1,816         | \$ 1,825    |
| Affiliates Trade payable    | \$ (18)          | \$ (143)    |

The following transactions with Affiliates are included in the consolidated financial statements:

|                  | <u>Year ended March 31,</u> |             |
|------------------|-----------------------------|-------------|
|                  | <u>2018</u>                 | <u>2017</u> |
| Revenues         | \$ 50                       | \$ 245      |
| Financial income | \$ 599                      | \$ 381      |

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 4:- MARKETABLE SECURITIES

The Company invests in equity marketable securities, which are classified as available-for-sale. The following is a summary of the Company's investment in marketable securities:

|                   | March 31, 2017 |                      |  |            | March 31, 2018 |                                    |  |            |
|-------------------|----------------|----------------------|--|------------|----------------|------------------------------------|--|------------|
|                   | Cost           | Comprehensive income | exchange rate changes on marketable securities | Fair value | Cost           | an other-than-temporary impairment | exchange rate changes on marketable securities | Fair value |
| Equity securities | \$ 350         | \$ (179)             | \$ 7   | \$ 178     | \$-            | \$ -                               | \$ -   | \$ -       |

NOTE 5:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

|                        | March 31, |           |
|------------------------|-----------|-----------|
|                        | 2018      | 2017      |
| Prepaid expenses       | \$ 891    | \$ 9,252  |
| Government authorities | 1,915     | 735       |
| Other                  | 22,978    | 3,661     |
|                        | \$ 25,784 | \$ 13,648 |

NOTE 6:- LOANS TO A RELATED PARTY

- a. In June 2008, the Company loaned BCM a total amount of \$ 1,000. The loan had an original maturity date of four months. The loan bears interest at a rate of LIBOR + 2.65% per annum. The LIBOR rate is adjusted every three months.

In September 2008, the Company loaned to BCM an additional amount of \$ 500. The repayment terms of the loan are similar to those of the first loan. The loan bears interest at a rate of LIBOR + 3.25% per annum. The LIBOR rate is adjusted every three months.

In October 2008, the Company and BCM reached an oral understanding, according to which the maturity date of the loans will be extended indefinitely.

On March 31, 2009, the Company reassigned \$ 646 of the loans to investments in affiliates.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 6:- LOANS TO A RELATED PARTY (Cont.)**

- b. During the year ended March 31, 2012, the Company loaned BCM additional amounts of \$ 150, \$300 and \$23, in April 2011, December 2011 and March 2012, respectively, with maturity dates of twelve months. The loan bears interest at a rate of LIBOR + 3% per annum. The Company and BCM reached an oral understanding, according to which the maturity date of the loans will be extended indefinitely. During 2011 and 2013, BCM repaid \$206 out of the total loans provided as mentioned above.
- c. In November 2012, December 2012 and March 2013, the Company loaned BCM additional amounts of \$ 150, \$125, and \$150, respectively with maturity dates of twelve months. The loans bear interest at a rate of LIBOR + 3% per annum. In May 2013 Lycos repaid the loan provided in December 2012.
- d. In the period from September 2013 through March 2014 the Company loaned BCM additional amounts of total \$1,645, with maturity dates of twelve months. The loans bear interest at a rate of LIBOR + 3% per annum.
- e. During the year ended March 31, 2015 the Company loaned BCM additional amounts of total \$2,616, with maturity dates of twelve months. The loans bear interest at a rate of LIBOR + 3% per annum.
- f. During the year ended March 31, 2016 the Company loaned BCM additional amounts of total \$3,080, with maturity dates of twelve months. The loans bear interest at a rate of LIBOR + 3% per annum.
- g. During the year ended March 31, 2017 the Company loaned BCM additional amounts of total \$1,671, with maturity dates of twelve months. The loans bear interest at a rate of LIBOR + 3% per annum.
- h. During the year ended March 31, 2018 the Company loaned BCM additional amounts of total \$160, with maturity dates of twelve months. The loans bear interest at a rate of LIBOR + 3% per annum.

**NOTE 7:- INVESTMENT IN AFFILIATES**

- a. In March 2009, the Company and its Parent signed an agreement to purchase 100% of the shares of five companies (out of which 10% will be purchased by the Company). On March 31, 2009, the Company and its Parent signed an agreement, according to which \$700 of the loan amounts will reflect the Company's full payment obligation under the purchase agreements, and the parent shall assume the sole responsibility to pay all amounts when due, to the sellers, under the purchase agreements, including the Company's portion.

The Company accounts for these investments in affiliates under the cost method.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 7:- INVESTMENT IN AFFILIATES (CONT.)

- b. On January 20, 2010 the Company along with third parties established a new Israeli Company ("Right Ads Ltd."). The Company is the owner of 25% of the issued and outstanding shares of the Right Ads. Right Ads Ltd. Is not active.
- c. On May 17, 2010, the Company purchased 6% of the outstanding shares of an Israeli company ("Convert Media Ltd" - formally "Argumtech Ltd."). Convert Media Ltd. is engaged in developing a smart bidding engine for online advertising. The total amount of the investment amounted to \$ 180. Since May 2010, the Company's investments in Convert Media Ltd. have been diluted and as of March 31, 2016, the Company holds 1.9% of the outstanding shares. Since the Company cannot exercise significant influence, this investment was presented at cost.
- d. On March 16, 2011, the Company signed an agreement to purchase all the shares of Pic App Technologies Ltd. ("PicApp Ltd.") for no consideration, with a certain earn-out payment by PicApp Ltd. to its previous shareholders according to target achievements. On April 3, 2011, the shares were transferred while the share price was not changed.

On April 4, 2011, PicApp Ltd. raised \$ 275 from several new investors and as a result the Company's holding percentage has decreased to 46.97%. During 2011 PicApp Ltd ceased its activity. As the Company has not originally invested any amounts in PicApp no impairment was deemed necessary. PicApp Ltd. is not active and is currently in the process of liquidation.

- e. On July 20, 2012, Ybrant UK issued shares to an Affiliate of the Company. As a result, the Company's holding in Ybrant UK was diluted to 5% of Ybrant UK shares. Since July 20, 2012, the Company accounts for this investment (\$ 38.75) under the cost method.

**ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 8:- PROPERTY AND EQUIPMENT**

|                                    | March 31, |          |
|------------------------------------|-----------|----------|
|                                    | 2018      | 2017     |
| Cost:                              |           |          |
| Computers and peripheral equipment | \$ 1,786  | \$ 1,516 |
| Office furniture and equipment     | 157       | 157      |
| Leasehold improvements             | 425       | 425      |
|                                    | 2,368     | 2,098    |
| Accumulated depreciation:          |           |          |
| Computers and peripheral equipment | 1,474     | 1,396    |
| Office furniture and equipment     | 94        | 88       |
| Leasehold improvements             | 363       | 348      |
|                                    | 1,931     | 1,832    |
| Depreciated cost                   | \$ 437    | \$ 266   |

Depreciation expenses for the years ended March 31, 2018 and 2017 were \$ 99 and \$ 108, respectively.

**NOTE 9:- SOFTWARE DEVELOPMENT COSTS**

|                            | March 31, |           |
|----------------------------|-----------|-----------|
|                            | 2018      | 2017      |
| Original amounts:          |           |           |
| Capitalized software costs | \$ 31,278 | \$ 16,239 |
| Accumulated amortization:  |           |           |
| Capitalized software costs | 6,028     | 3,396     |
| Software development costs | \$ 25,250 | \$ 12,843 |

- a. Amortization expenses amounted to \$ 2,632 and \$ 2,154 for the years ended March 31, 2018 and 2017, respectively.
- b. The estimated future amortization expense of other intangible assets as of March 31, 2018 is as follows:

|                               |        |
|-------------------------------|--------|
| The year ended March 31, 2019 | 8,342  |
| The year ended March 31, 2020 | 6,750  |
| The year ended March 31, 2021 | 5,340  |
| The year ended March 31, 2022 | 4,818  |
|                               | 25,250 |

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 10:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

|                         | March 31, |          |
|-------------------------|-----------|----------|
|                         | 2018      | 2017     |
| Government authorities  | \$ 17     | \$ 46    |
| Accrued expenses        | 353       | 359      |
| Advances from customers | -         | 135      |
| Tax provision, net      | 1,877     | 1,373    |
| Withholding tax         | 1         | 69       |
|                         | \$ 2,248  | \$ 1,982 |

NOTE 12:- TAXES ON INCOME

a. Israeli taxation:

1. Tax rates applicable to the income of the Israeli Company:  
Taxable income of Israeli companies is subject to tax rate of 24% and 23% w.e.f January 1st 2018.
2. Tax assessments filed through 2012 tax year are considered final. For the years 2013-2016 the company is an assessments with the Israeli Tax Authority.

b. Non Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective domiciles of residence. If earnings are distributed to Israel in the form of dividends or otherwise, the Company may be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. The Company's management has determined that it will not distribute any amounts of its undistributed income as a dividend. The Company intends to reinvest the amount of such income. Accordingly, no deferred income taxes have been provided on this account.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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U.S. dollars in thousands

**NOTE 13:- SHAREHOLDERS' EQUITY**

Composition of share capital:

|                               | <b>Authorized</b>       |             | <b>Issued and outstanding</b> |             |
|-------------------------------|-------------------------|-------------|-------------------------------|-------------|
|                               | <b>March 31,</b>        |             | <b>March 31,</b>              |             |
|                               | <b>2018</b>             | <b>2017</b> | <b>2018</b>                   | <b>2017</b> |
|                               | <b>Number of shares</b> |             |                               |             |
| Shares of NIS 0.01 par value: |                         |             |                               |             |
| Ordinary shares (1)           | 20,580,000              | 20,580,000  | 14,294,123                    | 14,294,123  |
|                               | 20,580,000              | 20,580,000  | 14,294,123                    | 14,294,123  |

- (1) The Ordinary shares confer upon the holders the right to receive notice to participate and vote in general meetings of the Company, and the right to receive dividends, if declared.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

**NOTE 14:- COMMITMENTS AND CONTINGENT LIABILITIES**

a. Commitments:

Lease commitments:

The Company and its subsidiaries lease their facilities under non-cancelable operating lease agreements, which expire on various dates, the latest of which is on March 31, 2020. Future minimum payments under non-cancelable operating lease agreements, as of March 31, 2018, are as follows:

|                           |    |              |
|---------------------------|----|--------------|
| Year ended March 31, 2019 | \$ | 3,410        |
| Year ended March 31, 2020 |    | <u>2,050</u> |
|                           | \$ | <u>5,460</u> |

Rent expenses for the years ended March 31, 2018 and 2017, were \$2,867 and \$2,860 respectively.

The Company leases motor vehicle under cancelable lease agreement. The Company has an option to cancel the lease agreement, which may result in penalties in the maximum amount of \$ 9.

b. Guarantee:

Guarantee in the amount of approximately \$ 114 were issued by a bank to secure rent payments.

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