

VL ENGAGE, INC.

Unaudited Financial Statements For The Year Ended December 31, 2016 and 2015

June 2, 2017



Independent Accountant's Review Report

To Management
VL Engage, Inc.
Chicago, IL

We have reviewed the accompanying balance sheet of VL Engage, Inc. as of December 31, 2016 and 2015, and the related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of my procedures provide a reasonable basis for our report.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read 'J. Tyra', is positioned above the printed name and date.

Jason M. Tyra, CPA, PLLC
Dallas, TX
June 2, 2017

VL ENGAGE, INC.
STATEMENT OF FINANCIAL CONDITION
YEAR ENDING DECEMBER 31,

	2015	2016
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 106,094	\$ 79,220
Accounts Receivable	922,624	113,325
Other Current Assets	1,271	1,249
TOTAL CURRENT ASSETS	<u>1,029,989</u>	<u>193,794</u>
NON-CURRENT ASSETS		
Goodwill, Net	2,254,470	2,254,470
Fixed Assets, Net	211,195	187,039
Other Assets	49,019	54,313
TOTAL NON-CURRENT ASSETS	<u>2,514,684</u>	<u>2,495,822</u>
TOTAL ASSETS	<u>\$ 3,544,673</u>	<u>\$ 2,689,615</u>
<u>LIABILITIES & SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts Payable	552,520	152,857
Accrued Interest Payable	63	2,394
Board of Directors Fees		85,500
Credit Cards Payable	57,978	25,035
Line of Credit	843,700	90,600
Payroll Taxes Payable	10,832	4,978
TOTAL CURRENT LIABILITIES	<u>1,465,093</u>	<u>361,364</u>
LONG TERM LIABILITIES		
Accrued Interest Payable		117,561
Notes Payable		943,700
TOTAL LONG TERM LIABILITIES	<u>0</u>	<u>1,061,261</u>
TOTAL LIABILITIES	1,465,093	1,422,625
SHAREHOLDERS' EQUITY		
Common Stock (10,000,000 shares authorized, 8,109,180 issued and outstanding, \$0.001 par value)	8,109	8,109
Additional Paid in Capital	3,340,954	3,340,954
Retained Earnings	(1,269,482)	(2,082,073)
TOTAL SHAREHOLDERS' EQUITY	<u>2,079,581</u>	<u>1,266,990</u>
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	<u>\$ 3,544,673</u>	<u>\$ 2,689,615</u>

Unaudited — See accompanying notes.

VL ENGAGE, INC.
STATEMENT OF OPEERATIONS
YEAR ENDING DECEMBER 31,

	2015	2016
OPERATING INCOME		
Marketing & Promotions Revenue	\$ 866,644	\$ 425,736
Technology Revenue, Recurring	1,725,099	594,470
TOTAL OPERATING INCOME	\$ 2,591,743	\$ 1,020,206
COST OF GOODS SOLD		
Content Delivery Network (Amazon)	205,945	216,063
Data Center (Softlayer)	274,709	278,892
Marketing & Promotions - COGS	110,846	368,005
Miscellaneous Business Services	8,571	9,469
Outsource - Independent Contract	41,613	46,190
Royalties - Labels/Publishers	648,107	(368,614)
TOTAL COST OF GOODS SOLD	1,289,791	550,004
GROSS PROFIT	1,301,952	470,202
OPERATING EXPENSE		
General & Administrative	143,168	331,935
Payroll Expenses	786,517	392,267
Sales, Marketing & Commissions	53,527	110,742
Amortization (Software Costs - Internally Developed)	356,754	316,694
Depreciation	4,579	3,402
TOTAL OPERATING EXPENSE	1,344,546	1,155,040
NET OPERATING INCOME	(42,594)	(684,838)
OTHER INCOME (EXPENSE)		
Other Income	800	
Other Expense	124,751	127,752
NET OTHER INCOME (EXPENSE)	(123,951)	(127,752)
NET INCOME (LOSS)	\$ (166,544)	\$ (812,591)

Unaudited — See accompanying notes.

VL ENGAGE, INC.
STATEMENT OF CASH FLOWS
YEAR ENDING DECEMBER 31,

	<u>2015</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss) For the Period	\$ (166,544)	\$ (812,591)
Change in Payables	556,234	(432,606)
Change in Receivables	(829,503)	809,299
Change in Other Current Assets	23	22
Change in Other Current Liabilities	353,540	(671,123)
Change in Notes Payable	<u>(3,000,000)</u>	<u></u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(3,086,250)</u>	<u>(1,106,998)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Fixed Assets	(340,985)	(294,293)
Investment in Other Assets	(23,407)	(5,294)
Amortization & Depreciation	<u>361,333</u>	<u>318,449</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(3,059)</u>	<u>18,863</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Accrued Interest		117,561
Change in Contributed Capital	3,178,078	
Change in Notes Payable		<u>943,700</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>3,178,078</u>	<u>1,061,261</u>
CASH AT BEGINNING OF PERIOD	17,326	106,094
NET INCREASE (DECREASE) IN CASH	<u>88,768</u>	<u>(26,874)</u>
CASH AT END OF PERIOD	<u>\$ 106,094</u>	<u>\$ 79,220</u>

Unaudited — See accompanying notes.

VL ENGAGE, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
DECEMBER 31, 2016 AND 2015

NOTE A- ORGANIZATION AND NATURE OF ACTIVITIES

VL Engage, Inc. (“the Company”) is a corporation organized under the laws of the States of Delaware and Illinois. The Company provides an online music streaming service targeted toward other businesses.

Prior to January 1, 2016, the Company operated as an Illinois limited liability company called “Amarone Partners, LLC.” On January 1, 2016, the Company reorganized as a Delaware corporation.

The Company will conduct an equity crowd fund offering during the second and third quarter of 2017 for the purpose of raising operating capital. The Company’s ability to continue as a going concern or to achieve management’s objectives may be dependent on the outcome of the offering or management’s other efforts to raise operating capital.

NOTE B- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances, and highly liquid investments with maturities of three months or less when purchased.

Accounts Receivable

Accounts receivable consists of amounts billed by the Company, but unpaid as of the end of the Company’s fiscal year. Management’s experience leads the Company to believe that losses on account are likely to be infrequent. Thus, no amount has been recognized in the financial statements as an allowance for uncollectible accounts receivable.

Fixed Assets

The Company capitalizes assets with a useful life of at least one year, and an original purchase price of at least \$1,000. As of December 31, 2016, the Company’s fixed assets consisted of computers, furniture, office equipment, and software. Depreciation and amortization expenses are taken on a straight-line basis over management’s estimate of each asset’s useful life.

VL ENGAGE, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

Goodwill

Goodwill consists of amounts paid in excess of identifiable assets for a technology company acquired by the Company in 2011. Goodwill is stated net of recognized impairment of \$100,000.

Other Assets

Other assets consist of artwork, patents, trademarks, and security deposits. Where appropriate, the Company amortizes other assets over their estimated legal or useful life. The Company does not amortize artwork, or security deposit assets.

Cost of Goods Sold

Cost of Goods Sold consists of various expenses related to online delivery of the Company's products and services, including technology costs, marketing and promotion costs, and royalties.

Advertising Costs

The Company expenses direct advertising costs in the period incurred. Advertising expense is included as a component of Cost of Goods Sold.

Income Taxes

The Company is subject to tax filing requirements as a corporation in the federal jurisdiction of the United States. For the year ended December 31, 2015, the Company was treated as a disregarded entity for federal income tax purposes. All items of revenue and expense for 2015 and prior were reported by the members of the Company on their individual tax returns.

The Company's 2014 federal tax filing will be subject to inspection by the Internal Revenue Service until 2018. The Company's 2015 federal tax filing will be subject to inspection by the Internal Revenue Service until 2019. The Company's 2016 federal tax filing will be subject to inspection by the Internal Revenue Service until 2020.

The Company is subject to tax filing requirements in the State of Illinois. The Company's 2014 Illinois tax filing will be subject to review by that State until 2018. The Company's 2015 Illinois tax filing will be subject to review by that State until 2019. The Company's 2016 Illinois tax filing will be subject to review by that State until 2020.

The Company is subject to annual reporting requirements in the State of Delaware. The Company's 2016 annual report will be subject to review by the State of Delaware until 2020.

NOTE C- EQUITY BASED COMPENSATION

The Company has adopted an equity based compensation plan for the purpose of attracting and retaining talented employees. Incentive stock options grant the holder the right to acquire Company stock from the Company at favorable rates. Options vest over a period determined by management at the time

VL ENGAGE, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

the options are granted. As of December 31, 2016, the Company had 385,375 fully vested stock options outstanding. No options were exercised during the years ended December 31, 2015, and 2015.

NOTE D - CONCENTRATIONS OF RISK

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents. The Company places its cash and cash equivalents with a limited number of high quality financial institutions and at times may exceed the amount of insurance provided on such deposits.

NOTE E- SUBSEQUENT EVENTS

Management considered events subsequent to the end of the period but before June 2, 2017, the date that the financial statements were available to be issued.

MANAGEMENT STATEMENT REGARDING RECASTING OF 2015 AND 2016 REVENUE

In December 2015, the Company substantially completed a ticket premium promotion with AEG for Justin Bieber's worldwide tour beginning in March 2016, which allowed each ticket purchaser to download his new album, *Purpose*. All tickets were sold in November 2015, and many downloads were redeemed immediately. The Company managed downloads of those albums with an understanding that the agreement between AEG and Universal Music Group required download royalty payments on a per ticket sold basis, whether the album was redeemed, or not. The Company invoiced AEG for payment, and booked the revenue in December 2015 based on that understanding.

Subsequently, in 2016, AEG and UMG renegotiated ambiguous terms of their contract to require payment for redeemed albums, only. The net result was that the Company's technology revenue derived from digital downloads in 2015 was overstated; and, after an offsetting credit was issued, that revenue in 2016 was understated. The following table shows the Company's 2015 and 2016 technology revenue, after adjustment.

Technology Revenue	2015	2016	Total
Bandwidth	\$ 835,273	\$ 751,529	\$ 1,586,802
Development	\$ 79,794	\$ (23,250)	\$ 56,544
Digital Downloads	\$ 310,191	\$ 242,324	\$ 552,515
Maintenance	\$ 43,208	\$ 80,500	\$ 123,708
Total Technology Revenue	\$ 1,268,466	\$ 1,051,103	\$ 2,319,569