

Matomy Media Group | First Quarter 2019 Financial Results

Matomy Media Group Ltd. (LSE: MTMY, TASE: MTMY.TA), today announced financial results for the first quarter ended 31 March, 2019.

OPERATING REVIEW - Segment Results for the three-month period ended 31 March 2019

The following table demonstrates Matomy's revenues for the three-month period ended 31 March 2019.

Matomy Media Group Consolidated Results for the three-month period ended 31 March 2019 (non-GAAP):

(Million USD)	Total Matomy
Revenue	18.0
Direct Media Costs*	13.1
Adjusted Gross Profit**	4.9
Adjusted Gross Margin**	27.2%
Direct Adjusted EBIDTA** *	2.8
Total Corporate Allocations****	(0.4)
Adjusted EBIDTA*****	2.4

Following the sale of its Mobile activity in November 2018 Matomy operates in one segment Domain monetization (Team Internet).

* *Direct Media Costs*

Direct Media Costs are the direct costs associated with the purchase of traffic. These costs include: payments for digital media based on the revenues Matomy generates from its customers on a revenue-sharing basis; registrar fees for own and operated domains and serving fees for third-party platforms.

***Adjusted Gross Profit / Margin*

Adjusted gross profit is a non-GAAP financial measure that Matomy defines as revenues less Direct Media Costs.

Matomy believes that adjusted gross profit is a meaningful measure of operating performance because it is frequently used for internal management purposes, indicates the performance of Matomy's solutions in balancing the goals of delivering results to its customers whilst meeting margin objectives, and facilitates a more complete understanding of factors and trends affecting Matomy's underlying revenues performance.

****Direct Adjusted EBIDTA*

Direct Adjusted EBITDA is a non-GAAP financial measure that Matomy defines as Adjusted EBITDA directly attributable to a specific business less the applicable Corporate Allocations assigned to such activity.

******Total Corporate Allocations**

Total Corporate Allocations is a non-GAAP financial measure that Matomy defines as indirect costs which are allocated across the various business units. They consist mainly of (i) cost of corporate headquarters, including labor costs and related overheads; and (ii) costs associated with being a publicly traded company, such as directors' compensation and expenses, costs relating to investor relations, shareholder meetings and reports to shareholders, directors' and officers' insurance and other executive costs, legal and other professional fees, and listing fees.

*******Adjusted EBITDA**

Adjusted EBITDA is a non-GAAP financial measure that Matomy defines as net income before taxes on income, financial expenses (income), net, depreciation and amortisation, share-based compensation expenses (cash and non-cash). Adjusted EBITDA is a key measure Matomy uses to understand and evaluate its core operating performance and trends, to prepare and approve its annual budget and to develop short- and long-term operating plans.

Going Concern

The Company requires additional capital in order to fund its liabilities (such liabilities include, among others, liability to non-controlling interest and convertible bond liability). There is no assurance that the Company will be able to obtain such required additional capital. The Company believes that these conditions raise substantial doubt regarding the Company's ability to continue as a going concern. For further details, refer to Note 1b to the Company's Financial Statements and to the Auditors' Report.

Projected Consolidated Sources and Expected Uses of Funds Statement through March 2020

Pursuant to the requirements the Hybrid Disclosure Model which apply only to dual listed companies that issue bonds on TASE, this announcement includes a special statement of projected consolidated sources and expected uses of funds statement through March 2020 (the "Projected Statement"). The Projected Statement is not intended to create any continuous on-going disclosure obligation for the Company. See Appendix A. See also "Cautionary statement regarding forward-looking statements" below.

Cautionary statement regarding forward-looking statements

This announcement includes certain forward-looking statements, forecasts, estimates, projections, and opinions. These forward-looking statements may be identified by the fact that they do not relate only to historical or current facts or the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “projects”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Forward-looking statements include statements regarding the Proposed Plan, the negotiations with Rainmaker and the bondholders, the business strategy, objectives, financial condition, results of operations and market data of the Company and its subsidiaries (the “Group”), as well as any other statements that are not historical facts. These statements reflect the Company’s current view concerning future events and are based on assumptions made by the Company (including, without limitation, assumptions concerning currency exchange rate fluctuations, requirements of additional capital, costs of sale or closure of various operations and changes to regulations) and information currently available to the Company.

Although the Company considers that these views and assumptions are reasonable, by their nature, forward-looking statements involve unknown risks, uncertainties, assumptions and other factors because they relate to events and depend on circumstances that will occur in the future whether or not outside the control of the Group. These factors, risks, uncertainties, and assumptions could cause actual outcomes and results to be materially different from those projected. Past performance cannot be relied upon as a guide to future performance and should not be taken as a representation that trends or activities underlying past performance will continue in the future. No representation is made or will be made that any forward-looking statements will be achieved or will prove to be correct. These factors, risks, assumptions, and uncertainties expressly qualify all subsequent oral and written forward-looking statements attributable to the Company or persons acting on its behalf.

The forward-looking statements speak only as of the date of this announcement. Each of the Company and its respective affiliates expressly disclaim any obligation or undertaking to update, review or revise any forward-looking statement and disclaims any obligation to update its view of any risks or uncertainties described herein, or to publicly announce the result of any revisions to the forward-looking statements made in this announcement to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or otherwise, except as required by law.

No statement in this announcement is intended or is to be construed, as a profit forecast or estimate or to be interpreted to mean that earnings per Company share or overall earnings for the current or future financial years will necessarily match or exceed the historical published earnings per Company share or overall earnings.

By order of the Board:

Sami Totah, Chairman of the Board and Chief Executive Officer (Interim)
Ilan Tamir, Chief Financial Officer (Interim)

About Matomy Media Group Ltd.

Matomy Media Group Ltd. (LSE: MTMY, TASE: MTMY.TA) is a global advertising technology company. Founded in 2006 with headquarters in Tel Aviv and offices in Germany, Matomy is dual-listed on the London and Tel Aviv Stock Exchanges.

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Matomy Media Group Ltd. -
Sources and Expected Uses of
Funds Statement (Solo, excluding
Team Internet) - through March
2021

מטומי מדיה גרופ בע"מ - דוח
מקורות ושימושים צפויים - (סולו, ללא
טים אינטרנט) - עד 31 במרץ 2021

in thousands of USD

באלפי דולר

	Q2-2019	Q3-2019	Q4-2019	2020	Q1-2021	
	actual	projected	projected	projected	projected	
Opening balance	\$ 7,347	\$ 5,451	\$ (10,742)	\$ (7,455)	\$ (16,356)	יתרת פתיחה
Sources:						מקורות:
Cash flow from Operations:						תזרים מפעילות שוטפת:
Working Capital Mobfox activity	\$ (144)	\$ (710)				הון חוזר מובפוקס
Tax Receivable - Matomy USA	\$ 625	\$ 920				החזר מס משלטונות המס האמריקאיים
Tax Receivable - Matomy KG			\$ 3,237	\$ 1,180	\$ -	החזר מס משלטונות המס הגרמניים
Tax paid in UK and USA	\$ (75)					מסים ששולמו באנגליה ובארצות הברית
Dividend from Mobfox Austria	\$ 85					דיבידנד מובפוקס אוסטריה
Dividend from Team Internet		\$ 3,710	\$ 3,504	\$ 8,073	\$ 2,018	דיבידנד מטים אינטרנט
Withholding tax on Team Internet Dividend		\$ (607)	\$ (573)	\$ (1,320)	\$ (330)	ניכוי מס במקור דיבידנד טים אינטרנט
Cash flow from Finance activity:						תזרים מפעילות מימון:
Rights Issue	none					הנפקת זכויות
Bond Series A Expansion	none					הרחבת סדרת האגח
Issuance Cost	\$ (427)					עלויות הנפקה
Cash flow from Investment activity:						תזרים מפעילות השקעה:
Sale of myDSP - last payment	\$ 250					מכירת myDSP
	\$ 314	\$ 3,313	\$ 6,168	\$ 7,933	\$ 1,688	
Expected Usage of Funds:						שימושים צפויים:
Cash used for Operations:	\$ (490)	\$ (438)	\$ (438)	\$ (1,100)	\$ (275)	תזרים לפעילות שוטפת:
One-time Cost of Operations	\$ (523)	\$ (191)				עלות תפעולית חד-פעמית
Legal cost of bond settlement	\$ (243)	\$ (86)				עלות הסדר החוב - משפטיות
Bond interest due	\$ (954)		\$ (905)	\$ (1,810)	\$ -	ריבית חצי שנתית לבעלי האגח
Cash flow used for Financing activity:						תזרים לפעילות מימון:
Bond principal payment				\$ (13,923)	\$ -	החזר קרן לאג"ח
Rainmaker payments		\$ (18,791)	\$ (1,539)			Rainmaker תשלומים ל-
	\$ (2,209)	\$ (19,506)	\$ (2,882)	\$ (16,833)	\$ (275)	
Closing balance	\$ 5,451	\$ (10,742)	\$ (7,455)	\$ (16,356)	\$ (14,943)	יתרת סגירה

Assumptions:

1. The Company's previous Sources and Expected Uses of Funds Statement was based on a proposed plan for a settlement between the Company, the bondholders, Rainmaker and any other relevant stakeholder, which was based on the updated key features published on January 9, 2019, and the clarifications that were published on January 23, 2019 ("Proposed plan"). Due to uncertainty regarding the feasibility of the execution of the Proposed Plan in its current structure and since it is most likely that the Proposed Plan will require adjustments in order to adapt it to the current and anticipated activity, the Company adopted a conservative approach and the Proposed Plan was not implemented. In addition and as a result, the Company included the payment to Rainmaker under the "Cash flow used for Financing activity".

In accordance with the share purchase agreement with Rainmaker, in which the Company, through its UK and German subsidiaries, currently holds 90% of the share capital, the Company was required to buy the remaining 10% stake in Team Internet (the "Third Sale Exit") from Rainmaker on November 30, 2018. The Company failed to pay the amount due on 30 November 2018. Failure by the Company to pay the consideration for the Third Sale Exit, triggers certain rights of Rainmaker, among other remedies, such as interest on late payment and a right to repurchase some or all of the Company's shares in Team Internet, at Rainmaker's discretion, at a price of 60% of the original purchase price paid by the Company on such shares. Such price, after giving effect to the foregoing discount and assuming all shares are purchased is approximately EUR 31,688 thousand.

The agreement with Rainmaker also provides that in the event that it can be demonstrated that the failure by the Company, through its UK and German subsidiaries, to make the payment is due to lack of funds despite any and all necessary efforts of the Company to obtain such funds (including by taking loans and selling assets), then the sole remedy available to Rainmaker is the exercise of the repurchase option.

2. The amounts of dividends that may be distributed by Team Internet to Matomy depend on the percentage holdings of Matomy in Team Internet and on the dividend policy at the relevant time.

3. Timing of distribution of Team Internet's dividends may vary based on liquidity limitations

4. With respect to future dividend distributions by Team Internet, the Company adopted a conservative approach: (a) the Company adjusted the dividend distributions from Team Internet during 2019 and 2020 according to and based on the actual results of Team Internet in 2018; (b) the dividend distribution were adjusted to reflect a conservative scenario that take into account the recent developments in the Company's activity, as were reported by the Company on June 20, 2019.

5. With respect to the payment of Bond Principal, we have assumed that the Bonds continue to be repaid according to its payment schedule, therefore, 50% of the Bond Principal will be paid On December 31, 2020.

Unreviewed Statement

The statement contains unreviewed financial measures that do not have a standardized meaning prescribed by GAAP.

Cautionary statement regarding forward-looking statements

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The forward-looking statements speak only as of the date of this announcement. Each of the Company and its respective affiliates expressly disclaim any obligation or undertaking to update, review or revise any forward-looking statement and disclaims any obligation to update its view of any risks or uncertainties described herein or to publicly announce the result of any revisions to the forward-looking statements made in this announcement to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or otherwise, except as required by law.

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Matomy Media Group Ltd. - Gap analysis - comparison of Q2, 2019 actual cash flow compared to the Sources and Expected Uses of Funds Statement projection published on March 31, 2019

מטומי מדיה גרופ בע"מ - טבלת השוואה בין נתוני רבעון 2 של שנת 2019 לעומת דוח מקורות ושימושים צפויים שפורסם ב-31 במרץ 2019

in thousands of USD

באלפי דולר

		Q2 - 2019 Projected	Q2 - 2019 Actual		
Sources:					
Cash flow from Operations:					
Working Capital Mobfox activity	Note 1 below	\$ (854)	\$ (144)	הערה 1 למטה	הון חוזר מובפוקס
Tax Receivable - Matomy USA	Note 2 below	\$ 658	\$ 625	הערה 2 למטה	החזר מס משלטונות המס האמריקאיים
Tax paid in UK and USA		\$ -	\$ (75)		מסים ששולמו באנגליה ובארצות הברית
Dividend from Team Internet	Note 3 below	\$ 3,710	\$ -	הערה 3 למטה	דיבידנד מטיים אינטרנט
Withholding tax on Team Internet Dividend	Note 3 below	\$ (607)	\$ -	הערה 3 למטה	ניכוי מס במקור דיבידנד טים אינטרנט
Cash flow from Finance activity:					
Rights Issue	Note 9 below	\$ 10,000	\$ -	הערה 9 למטה	הנפקת זכויות
Bond Series A Expansion	Note 9 below	\$ 2,000	\$ -	הערה 9 למטה	הרחבת סדרת האגה
Issuance Cost	Note 7 below	\$ (1,000)	\$ (427)	הערה 7 למטה	עלויות הנפקה
Expected Usage of Funds:					
Ongoing operations	Note 6 below	\$ (438)	\$ (490)	הערה 6 למטה	עלות תפעולית שוטפת
One-time Cost of Operations	Note 4 below	\$ (714)	\$ (523)	הערה 4 למטה	עלות תפעולית חד-פעמית
Legal cost of bond settlement	Note 4 below	\$ (329)	\$ (243)	הערה 4 למטה	עלות הסדר החוב - משפטיות
Bond interest due	Note 5 below	\$ (1,057)	\$ (954)	הערה 5 למטה	ריבית חצי שנתית לבעלי האגה
Cash flow used for Financing activity:					
Bond principal payment	Note 9 below	\$ (3,500)	\$ -	הערה 9 למטה	החזר קרן לאג"ח
Rainmaker payments	Note 9 below	\$ (13,500)	\$ -	הערה 9 למטה	Rainmaker תשלומים ל-
Note:					
1. The company paid suppliers less than expected in Q2, and will pay outstanding debts during Q3					1. החברה ושילמה לספקים פחות מהמצופה, ותשלם חובות שנשארו פתוחים במהלך רבעון 3
2. Company collected an amount which was slightly lower than expected					2. החברה גבתה סכום נמוך במעט מהצפוי
3. Due to continued discussions regarding Team Internet, this was postponed from Q2 to Q3					3. בשל התמשכות השיחות בנושא טים אינטרנט חלוקת הדיבידנד נדחתה מרבעון 2 לרבעון 3
4. Partial amount was paid in Q2, the rest will be paid in Q3					4. חלק מהסכום שולם ברבעון 2, השאר ישולם ברבעון 3
5. The interest payment to the bondholders was lower than expected as the Proposed Plan was not implemented					5. תשלום הריבית היה נמוך מהצפוי מכיוון שלא התממש הסדר החוב במתכונת שעיקרה פורסמו ביום 9 בינואר 2019 והבהרות שפורסמה לה ביום 23 בינואר 2019 ("תכנית ההסדר המוצעת").
6. This cost was slightly higher than planned					6. עלות זו הייתה גבוהה במעט מהצפוי
7. This is the partial cost of preparing the prospectus which was required for the execution of the Proposed Plan; this process was put on hold after the company received the Purchase Offer, as was published on April 2019.					7. עלות הכנת התשקיף שנדרש לצורך הוצאתה לפועל של תכנית ההסדר המוצעת. תהליך זה לא הושלם עקב קבלת הצעת הרכישה מריינמייקר, כפי שפורסמה באפריל 2019.
8. Unanticipated tax expenses					8. הוצאות מס לא צפויות
9. Due to uncertainty regarding the feasibility of the execution of the Proposed Plan, in its current structure, its key features were removed from the statement above, including the anticipated Capital Raise from the Shareholders, anticipated Early Payment to the Bondholders and the amount that the Company anticipated paying Rainmaker in Q2. instead, the full payment to Rainmaker according to the original agreement, was added in Q3					9. עקב אי הודאות לגבי הוצאתה לפועל של תכנית הסדר המוצעת במתכונתה הנוכחית תנאיה לא נכללו במסגרת התזרים לעיל. בהתאם, הוסרה ההתייחסות לגיוס ההון מבעלי מניות, הפרעון המוקדם למחזיקי האגה, נמחק הסכום שהיה צריך להיות משולם לריינמייקר, וברבעון 3 נכלל סכום ההתחייבות לריינמייקר על פי ההסכם עימם.

הסבר

MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 MARCH 2019

U.S. DOLLARS IN THOUSANDS

UNAUDITED

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The Board of Directors
Matomy Media Group Ltd.

Review Report of Independent Auditors

We have reviewed the consolidated financial statements of Matomy Media Group Ltd. and its subsidiaries (collectively "the Company"), which comprise the consolidated balance sheet as of 31 March 2019, and the related consolidated statement of operations, changes in shareholder's equity and cash flows for the three-month period ended 31 March 2019 and 2018.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the interim financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial statements in conformity with U.S. generally accepted accounting principles.

Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States applicable to reviews of interim financial statements. A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for it to be in conformity with U.S. generally accepted accounting principles.

Emphasis of Matter Regarding Going Concern

The accompanying interim financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1b to the interim financial statements, during the three-months period ended 31 March, 2019 the Company incurred a net loss of \$ 15,362, and its working capital deficiency amounted to \$ 31,339 as of 31 March, 2019. These conditions, among others, raise substantial doubts about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1b. The interim financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Tel Aviv, Israel
July 31, 2019

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	31 March 2019	31 December 2018
	Unaudited	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,890	\$ 7,167
Restricted cash	1,007	3,134
Trade receivables, net	6,773	5,947
Government authorities	5,843	9,009
Other receivables and prepaid expenses	1,120	3,474
Discontinued operation	605	4,634
Total current assets	25,238	33,365
LONG-TERM ASSETS:		
Property and equipment, net	1,360	1,413
Operating lease right-of-use asset	2,013	-
Domains	11,896	11,904
Other intangible assets, net	1,139	1,451
Goodwill	26,295	42,279
Other assets	54	59
Total long-term assets	42,757	57,106
Total assets	\$ 67,995	\$ 90,471

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

MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	31 March 2019	31 December 2018
	Unaudited	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Liability to non-controlling interest	\$ 20,330	\$ 19,375
Short-term bank credit and current maturities of bank loans	1,990	5,752
Trade payables	7,404	7,498
Employees and payroll accrual	1,435	1,813
Convertible bond at fair value (principal of ILS 101,000 thousands)	19,828	18,540
Operating lease liabilities, accrued expenses and other liabilities	4,972	6,057
Discontinued operation	618	3,928
Total current liabilities	56,577	62,963
LONG-TERM LIABILITIES:		
Deferred tax liabilities	624	2,727
Bank loans, net of current maturities	871	1,116
Operating lease liabilities	1,662	-
Other liabilities	201	318
Total long-term liabilities	3,358	4,161
EQUITY:		
Matomy Media Group Ltd. shareholders' equity:		
Ordinary shares	254	254
Additional paid-in capital	86,106	86,031
Accumulated other comprehensive loss	(3,174)	(3,174)
Accumulated deficit	(69,145)	(53,788)
Treasury shares	(6,231)	(6,231)
Total Matomy Media Group Ltd. shareholders' equity	7,810	23,092
Non-controlling interests	250	255
Total equity	8,060	23,347
Total liabilities and equity	\$ 67,995	\$ 90,471

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

MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

U.S. dollars in thousands except share and per share data

	Three months ended		Year ended
	31 March		December 31
	2019	2018	2018
	Unaudited		Audited
Revenues	\$ 17,967	\$ 28,572	\$ 88,734
Cost of revenues	13,930	23,688	69,867
Gross profit	4,037	4,884	18,867
Operating expenses			
Research and development	137	962	2,266
Selling and marketing	954	2,768	7,694
General and administrative	1,113	1,539	6,125
Impairment, net of change in fair value of contingent consideration	15,984	-	7,435
Other expenses	1,000	-	-
Restructuring costs	-	-	1,923
Loss from sale of activity	-	-	1,777
<u>Total operating expenses</u>	<u>19,188</u>	<u>5,269</u>	<u>27,220</u>
Operating loss from continuing operations	(15,151)	(385)	(8,353)
Convertible bond issuance costs	-	1,588	1,588
Financial expenses (income), net	1,414	1,379	(6,691)
Loss from continuing operations before taxes on income	(16,565)	(3,352)	(3,250)
Tax on income (benefit)	(1,203)	972	3,683
Loss from continuing operations before equity losses of affiliated companies	(15,362)	(4,324)	(6,933)
Gain on remeasurement to fair value, gain from sale of affiliated companies and equity gains of affiliated companies, net	-	17	75
Loss from continuing operations	(15,362)	(4,307)	(6,858)
Loss from discontinued operations, net	-	(3,028)	(39,787)
Net loss	(15,362)	(7,335)	(46,645)
Net loss attributable to redeemable non-controlling interests in subsidiaries	-	17	-
Net loss attributable to other non-controlling interests in subsidiary	5	-	53
Net loss attributable to Matomy Media Group Ltd. before accretion of redeemable non-controlling interest from continuing operations	<u>\$ (15,357)</u>	<u>\$ (4,307)</u>	<u>\$ (6,805)</u>
Net loss attributable to Matomy Media Group Ltd. before accretion of redeemable non-controlling interest from discontinued operations	<u>\$ -</u>	<u>\$ (3,028)</u>	<u>\$ (39,787)</u>
Net loss attributable to Matomy Media Group Ltd. before accretion of redeemable non-controlling interest	<u>\$ (15,357)</u>	<u>\$ (7,335)</u>	<u>\$ (46,592)</u>
Basic and diluted loss per ordinary share from continuing operations	\$ (0.16)	\$ (0.06)	\$ (0.07)
Basic and diluted loss per ordinary share from discontinued operations	\$ -	\$ (0.03)	\$ (0.41)
Basic and diluted loss per ordinary share	<u>\$ (0.16)</u>	<u>\$ (0.09)</u>	<u>\$ (0.48)</u>
Weighted average number of shares used in computing basic and diluted net loss per share	<u>97,161,102</u>	<u>96,395,069</u>	<u>96,512,306</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

US dollars in thousands, except share data

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive Loss	Retained earnings	Treasury Shares	Total Matomy Media Group Ltd. shareholders' equity	Non-controlling interests	Total equity
	Number	Amount							
Balance as of 1 January 2019	98,372,339	\$ 254	\$ 86,031	\$ (3,174)	\$ (53,788)	\$ (6,231)	\$ 23,092	\$ 255	\$ 23,347
Stock-based compensation	-	-	75	-	-	-	75	-	75
Net loss	-	-	-	-	(15,357)	-	(15,357)	(5)	\$ (15,362)
Balance as of 31 March 2019 (unaudited)	98,372,339	\$ 254	\$ 86,106	\$ (3,174)	\$ (69,145)	\$ (6,231)	\$ 7,810	\$ 250	\$ 8,060

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive Loss	Retained earnings	Treasury Shares	Total Matomy Media Group Ltd. shareholders' equity	Non-controlling interests	Total equity
	Number	Amount							
Balance as of 1 January 2018	97,535,023	252	85,931	(3,174)	(7,196)	(6,231)	69,582	308	69,890
Stock-based compensation	-	-	192	-	-	-	192	-	192
Exercise of options and vesting of restricted share units	79,500	*) -	*) -	-	-	-	*) -	-	*) -
Net loss	-	-	-	-	(7,335)	-	(7,335)	(17)	(7,352)
Balance as of 31 March 2018 (unaudited)	97,614,523	252	86,123	(3,174)	(14,531)	(6,231)	62,439	291	62,730

*) Represents an amount lower than \$ 1.

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

US dollars in thousands, except share data

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive Loss	Retained earnings	Treasury Shares	Total Matomy Media Group Ltd. shareholders' equity	Non- controlling interests	Total equity
	Number	Amount							
Balance as of 1 January 2018	97,535,023	\$ 252	\$ 85,931	\$ (3,174)	\$ (7,196)	\$ (6,231)	\$ 69,582	\$ 308	\$ 69,890
Stock-based compensation	-	-	102	-	-	-	102	-	102
Exercise of options and vesting of restricted share units	837,316	2	(2)	-	-	-	-	-	-
Net loss	-	-	-	-	(46,592)	-	(46,592)	(53)	(46,645)
Balance as of 31 December 2018 (audited)	<u>98,372,339</u>	<u>\$ 254</u>	<u>\$ 86,031</u>	<u>\$ (3,174)</u>	<u>\$ (53,788)</u>	<u>\$ (6,231)</u>	<u>\$ 23,092</u>	<u>\$ 255</u>	<u>\$ 23,347</u>

MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

US dollars in thousands

	Three months ended		Year ended
	31 March		December 31
	2019	2018	2018
	Unaudited		
<u>Cash flows from operating activities:</u>			
Net loss	\$ (15,362)	\$ (7,352)	\$ (46,645)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	492	2,794	8,647
Stock-based compensation	75	192	102
Impairment of intangible assets, goodwill, and capitalized research and development	15,984	-	38,580
Change in deferred tax, net	(2,090)	(234)	(664)
Change in accrued interest and effect of foreign exchange differences on long term loans and leases liability	(75)	81	(167)
Gain on remeasurement to fair value, gain from sale of affiliated companies and equity losses of affiliated companies, net	-	-	(75)
Fair value revaluation - convertible bond	1,288	(527)	(11,390)
Decrease in trade receivables	3,203	8,801	22,679
Decrease (Increase) in other receivables and prepaid expenses	705	(2,832)	(186)
Decrease in other assets	7	47	57
Decrease in trade payables	(3,404)	(8,438)	(17,796)
Changes in fair value of payment obligation related to acquisitions recognized in earnings	955	182	260
Decrease (increase) in tax receivable	3,166	-	(3,399)
Decrease in employees and payroll accruals	(378)	(1,091)	(2,294)
Decrease in accrued expenses and other liabilities	(1,531)	(144)	(4,818)
Loss from sale of activity	-	-	1,835
Loss (gain) from disposal of property and equipment and domains	(53)	-	847
Other	-	50	(57)
Net cash provided by (used in) operating activities	<u>2,982</u>	<u>(8,471)</u>	<u>(14,484)</u>
<u>Cash flows from investing activities:</u>			
Sale of activity	1,740	-	6,510
Change in long term deposit	-	-	66
Sale of investment in affiliated company	-	-	149
Purchase of property and equipment	(16)	(67)	(206)
Purchase of domains	-	(51)	(1,134)
Proceeds from sale of domains and property and equipment	-	-	76
Capitalization of research and development costs	(156)	(733)	(2,258)
Net cash provided by (used in) investing activities	<u>\$ 1,568</u>	<u>\$ (851)</u>	<u>\$ 3,203</u>

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

MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

US dollars in thousands

	Three months ended		Year ended
	31 March		December 31
	2019	2018	2018
	Unaudited		
<u>Cash flows from financing activities:</u>			
Short-term bank credit, net	\$ (2,851)	\$ 755	\$ (4,322)
Issuance of convertible bond	-	29,930	29,930
Repayment of bank loans	(1,103)	(3,049)	(10,019)
Additional payments related to previous acquisitions	-	(110)	(681)
Acquisition of non-controlling interest	-	(20,146)	(20,146)
Dividend paid to non-controlling interest	-	(2,711)	(2,711)
Net cash provided by (used in) financing activities	<u>(3,954)</u>	<u>4,669</u>	<u>(7,949)</u>
Effect of exchange rate differences on cash	<u>-</u>	<u>(2)</u>	<u>-</u>
Increase (decrease) in cash, cash equivalents and restricted cash	596	(4,655)	(19,230)
Cash, cash equivalents and restricted cash at beginning of period	<u>10,301</u>	<u>29,531</u>	<u>29,531</u>
Cash, cash equivalents and restricted cash at end of period	<u>\$ 10,897</u>	<u>\$ 24,876</u>	<u>\$ 10,301</u>
<u>Non-cash investing activities:</u>			
Receivable in connection with acquisitions	<u>\$ 99</u>	<u>\$ -</u>	<u>\$ 1,839</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands (except share and per share data)

NOTE 1:- GENERAL

- a. Matomy Media Group Ltd. ("Matomy") together with its subsidiaries (collectively - the "Company") offered and provided a portfolio of proprietary programmatic data-driven platforms focusing on two core activities of domain monetization and mobile digital advertising to advertisers, advertising agencies, Apps developers and domain owners.

Matomy was incorporated in 2006. The Company's markets are located primarily in the United States and Europe. The Company's shares are traded on the London Stock Exchange and also on the Tel Aviv Stock Exchange.

In the period spanning from mid-2017 through November 2018, the Company exited all of its data-driven advertising platforms with the exception of Team Internet AG ("Team Internet"), a market leading domain advertising and monetization platform, with two key activities: (i) a proprietary domain parking platform that enables customers to monetize their domain portfolios; and (ii) a proprietary self-serve platform that allows publishers and advertisers to buy and sell traffic on a smart programmatic real time bidding model. The Company, through its UK and German subsidiaries, currently holds 90% of the share capital of Team Internet. (Refer to Note 1b(ii)).

In the three-months period ended 31 March 2019, the Company incurred a net loss of \$ 15,362. In addition, the Company's working capital deficiency amounted to \$ 31,339 as of 31 March 2019. The main factor contributing to this loss were goodwill impairment charges of \$15,984 related to its Domain Monetisation reporting activity (see Note 2e).

- b.
 - i. The Company requires additional capital in order to fund its liabilities. Such liabilities include, among others, liability to non-controlling interest (minority shareholder in Team Internet) and convertible bond liability (as further described in subsections ii and iii below). There is no assurance that the Company will be able to obtain such require additional capital.

In order for the Company to act in a manner that is intended to address the interests of all stakeholders, the Company has engaged in two parallel processes: first, negotiated a proposed comprehensive plan that will enable it to raise funds from its shareholders, adjust the terms of the Bonds to the Company's current and anticipated financial position and planned future activity, and fund its liability to the minority shareholder in Team Internet, according to main principles that were published by the Company (the "**Proposed Plan**"), and second, the sale of Team Internet.

In light of the current and anticipated activity and financial position of the Company, it is unlikely that the Proposed Plan in its original structure and terms will be executed, and any potential alternative plan will require adjustments to its terms in order to reflect the current circumstances.

To date, no agreement has been signed and there can be no assurance with respect to the outcome of such discussions between the Company and the various stakeholders, including the bondholders.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands (except share and per share data)

NOTE 1:- GENERAL (Cont.)

ii. In accordance with the share purchase agreement dated December 2017 (the "2017 SPA") with the minority shareholders of Team Internet, Rainmaker Investments GmbH ("Rainmaker"), the Company was required to buy the remaining 10% stake in Team Internet (the "Third Sale Exit") from Rainmaker on November 30, 2018. The Company failed to pay the amount due on 30 November 2018, which is claimed by Rainmaker to be equal to EUR 16,015 thousand. Failure by the Company to pay the consideration for the Third Sale Exit, triggers certain rights of Rainmaker, among other remedies, such as interest on late payment and a right to repurchase some or all of the Company's shares in Team Internet, at Rainmaker's discretion, at a price of 60% of the original purchase price paid by the Company on such shares. Such price, after giving effect to the foregoing discount and assuming all shares are purchased is approximately EUR 31,688 thousand. The agreement with Rainmaker also provides that in the event that it can be demonstrated that the failure by the Company, through its UK and German subsidiaries, to make the payment is due to lack of funds despite any and all necessary efforts of the Company to obtain such funds (including by taking loans and selling assets), then the sole remedy available to Rainmaker is the exercise of the repurchase option. If the failure to pay is not as specified above, then Rainmaker is not limited in the legal remedies that it may pursue.

The shares purchased by the Company are detailed below:

Number of shares	Original Purchase price per share	Percentage of the total Team Internet's share capital
14,706	EUR 153.20	20%
36,765	EUR 535.84	50%
7,353	EUR 1,715.67	10%
7,353	EUR 2,481.33	10%

On April 4, 2019, the Company received an offer to sell all of its shares in Team Internet (90%), to a German Private Equity fund and Rainmaker, (the "Sale Offer" and the "Potential Purchaser", respectively). Due to changes in compliance requirements, a handful of its publishers have been deactivated, which resulted in negative impact on the Company's financial results (see also Note 2e), the Potential Purchaser has informed the Company that it will require additional time to assess the Company's business and financial position and evaluate the feasibility and pricing of a revised purchase offer, which shall reflect lower economic values compared to the original Sale Offer.

The Company continues in its efforts to sell its holdings in Team Internet to the potential purchaser or to other potential buyers. There is no certainty that such negotiations will result in a sale transaction or in a binding agreement. The Company is evaluating this transaction along with other alternatives and will determine its preferred route.

In addition, under the 2017 SPA, it was agreed by the parties on a one-off bonus of \$1,000 to be paid to Rainmaker for the extension of the cooperation between Team Internet and its unrelated search engine provider beyond 31 July 2019. As of 31 March 2019, the Company expected payment for the search engine renewal bonus, and therefore a provision was recorded and the expense was recorded as other expense on the statement of operation for the three-month period ended 31 March 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands (except share and per share data)

NOTE 1:- GENERAL (Cont.)

iii. Beginning in the fourth quarter of 2018, the Company has been holding discussions with the trustee of the outstanding Bonds (the "Trustee") and with the representatives and legal counsel of the bondholders in order to reach an agreement to adjust certain terms of the Bonds.

The bondholders have, among other things, made a claim that they are entitled, at the fourth quarter of 2018, to call the Bonds for immediate repayment based on the "material adverse effect on the Company's business" clause, comparing the then current Company's business conditions and the Company's business conditions as of the bond's issuance date. The Company rejected this claim.

During January 2019, the Trustee issued a voting proxy, according to which the bondholders are requested to either vote in favor of an indicative non-binding approval of the Company's Proposed Plan or demand immediate repayment of the Bonds. On 29 January 2019, the majority of the bondholders voted in favor of the Proposed Plan of the Company and resolved not to require immediate repayment of the Bonds pursuant to that voting proxy. To date no agreement was reached.

Due to the recent developments, as described in Note 1b(i) above, there is uncertainty regarding the feasibility of the execution of the Proposed Plan in its current structure and terms and that it is most likely that the Proposed Plan will require adjustments in order to adapt it to the current and anticipated activity and financial position of the Company.

On July 1, 2019 the Trustee has published a notice to convene a bondholders meeting. On the agenda of such meeting was a resolution of a contingent demand of an immediate repayment of the bonds. According to the notice, if the bondholders approve the resolution on the agenda by a simple majority, and the Company does not make a partial early repayment of the bonds, in the amount of \$4,500, within 45 days following the day of the publication of the results of such bondholders meeting, the trustee will demand an immediate and full repayment of the bonds ("**Proposed Repayment Demand Resolution**").

On July 7, 2019 the Company sent, a letter to the Trustee, in which it argued against such proposed resolution and emphasised the difficulties that such proposed resolution entailed and its potential implications.

On July 9, 2019 the Trustee has published the results of such bondholders' vote, according to which the Proposed Repayment Demand Resolution was rejected.

The Company continues to seek a solution for this situation, and is working closely with the Bondholders' representative to achieve an agreed upon settlement.

iv. In respect of the Company's convertible bond, as described in Note 5 herein, noncompliance with certain covenants during two consecutive quarters constitutes a default event, which under certain circumstances, as detailed in the bond, entitles the holders to claim immediate repayment of the Bonds. The following includes summary of the bond financial covenants:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands (except share and per share data)

NOTE 1:- GENERAL (Cont.)

Covenant
Minimum Equity (as defined therein) of \$40,000
Net Debt to Adjusted EBITDA Ratio (as defined therein) of not more than 2.5
Adjusted EBITDA (as defined therein) of at least \$10,000

As of 31 March 2019 and 31 December 2018, the Company was not in compliance for two or more consecutive quarters with its Minimum Equity covenant and with the Adjusted EBITDA covenant. Therefore, under ASC 470, Debt, the convertible bond in the amount of \$19,828 and \$18,540 (principal of \$27,808 as of 31 March 2019) was classified to short term liabilities as of 31 March 2019 and 31 December 2018, respectively. As of 31 December 2018 the Company was not in compliance with the Net Debt to Adjusted EBITDA Ratio covenant, however, as of 31 March 2019 the Company was compliant with such covenant.

Noncompliance with certain covenants in the bonds triggers an increase of interest. As a result of the Company's Shareholders' Equity being lower than \$50,000, the interest rate on the outstanding balance of the principal of the Bonds was increased by 0.5% as of October 1, 2018. In addition, as a result of the Adjusted EBITDA being lower than \$10,000, the interest rate on the outstanding balance of the principal of the Bonds was increased by additional 0.5% as of 1 January, 2019. Therefore, the updated annual interest rate for the period commencing on the 1 January, 2019 and through 31 December, 2019 will be 6.5%.

v. On 28 December 2017, major shareholders of the Company holding in the aggregate approximately 30% of the Company's voting share capital, provided letters of support addressed to the Company stating that such shareholders agreed to provide sufficient financial support, if necessary, to the Company to ensure that the Company can continue its operations for at least twelve months from 27 December 2017. Under such letters, all eligible shareholders will have the right to participate under the same terms, which will be determined by the Board, subject to receipt of any applicable shareholder approvals (the "**Letters of Support**").

With respect to such Letters of Support, the Company received two letters, the first letter from legal counsel to the minority shareholder in Team Internet, Rainmaker, claiming, among other things, that the Letters of Support impose a liability upon such major shareholders to inject funds into the Company in order to enable it to pay the consideration for the Third Sale Exit. The second letter from legal counsel to the major shareholders, who provided the Letters of Support, which include, *inter alia*, claims that the obligation under the Letters of Support is intended to cover funding relating to the Company's on-going operations, that is, salaries payments and other on-going expenses etc., but does not cover the consideration for the Third Sale Exit or discharge the Company's liabilities. The bondholders have also raised claims that based on their interpretation, the Letters of Support are intended to cover the payments due to them.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands (except share and per share data)

NOTE 1:- GENERAL (Cont.)

On 20 December 2018, the Company received a letter from legal counsel to the shareholders who provided the Letters of Support, confirming that in support of the current discussions among the Company and various stakeholders, including the bondholders, the aforementioned shareholders agree not to claim that the Letters of Support expire with respect to the period up to 10 January 2019. This extension further states that the foregoing extension relates only to the extent of the circumstances under which the major shareholders would have been required to provide support pursuant to the terms of the original Letters of Support until 27 December 2018. The Company received several additional letters from legal counsel to the shareholders who provided the Letters of Support, further extending the Letters of Support as described above up to August 6, 2019.

It should be noted that the Company engaged independent legal experts in order to advise about the appropriate measures and actions it should take in connection with the Letters of Support. In light of the continued negotiations regarding the Sale Offer and the extension of the Letters of Support as described above, the Company is of the opinion that it is not necessary, at this stage, to reach a conclusion regarding the above disputed interpretation of the Letters of Support.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Unaudited interim financial statements

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial information. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results for the three-month period ended 31 March 2019 are not necessarily indicative of the results that may be expected for the year ended 31 December 2019.

In the preparation of the interim consolidated financial information, except as described in Note 3, it applied the significant accounting policies, on a consistent basis to the annual financial statements of the Company as of 31 December 2018.

The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's financial statements ("the Annual Report") for the year ended 31 December 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Use of estimates:

The preparation of the consolidated financial information in conformity with US GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions it uses 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 information, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

On an ongoing basis, the Company's management evaluates estimates, including those related to accounts receivable, fair values of financial instruments, fair values and useful lives of intangible assets and reporting units, fair values of stock-based awards, deferred taxes and income tax uncertainties and contingent liabilities. Such estimates are based on historical experience and on various other assumptions that it believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

c. Internally developed software:

The Company capitalizes certain internal software development costs, consisting of direct labor associated with creating the internally developed software. Software development projects generally include three stages: the preliminary project stage (all costs expensed as incurred), the application development stage (costs are capitalized) and the post implementation/operation stage (all costs expensed as incurred).

The costs capitalized in the application development stage primarily include the costs of designing the application, coding and testing of the system. Capitalized costs are amortized using the straight-line method over the estimated useful life of the software, generally 3 years, once it is ready for its intended use. The Company believes the straight-line recognition method best approximates the manner in which the expected benefit will be derived. During the three month period ended 31 March 2019, the Company capitalized software development costs of \$ 156. Amortization expense for the related capitalized internally developed software in the three month periods ended 31 March 2019 and 2018 totalled \$ 134 and \$1,090, respectively, and is included in cost of revenues in the accompanying consolidated statements of operations. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

Capitalized internally developed software of \$ 841 and \$ 818 are included in property and equipment in the consolidated balance sheets as of 31 March 2019 and 31 December 2018, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Fair value of financial instruments

The carrying amounts of financial instruments carried at cost, including cash and cash equivalents, short-term deposits, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses and other liabilities approximate their fair value due to the short-term maturities of such instruments.

The Company follows the provisions of ASC 820 which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In determining a fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability, based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions that market participants would use in pricing an asset or liability, based on the best information available under given circumstances.

The hierarchy is broken down into three levels, based on the observability of inputs and assumptions, as follows:

- **Level 1** - Observable inputs obtained from independent sources, such as quoted prices for identical assets and liabilities in active markets.
- **Level 2** - Other inputs that are directly or indirectly observable in the market place.
- **Level 3** - Unobservable inputs which are supported by little or no market activity.

The following table present liabilities measured at fair value on a recurring basis as of 31 March 2019 and 31 December 2018:

		31 March 2019			
		Fair value measurements using input type			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Bonds		\$ 19,828	\$ -	\$ -	\$ 19,828
Total financial liabilities		<u>\$ 19,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,828</u>
		31 December 2018			
		Fair value measurements using input type			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Bonds		\$ 18,540	\$ -	\$ -	\$ 18,540
Derivative		-	933	-	933
Total financial liabilities		<u>\$ 18,540</u>	<u>\$ 933</u>	<u>\$ -</u>	<u>\$ 19,473</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- e. Goodwill and other intangible assets:

Goodwill reflects the excess of the purchase price of business acquired over the fair value of net identifiable assets acquired. Goodwill and indefinite intangible assets are not amortized but instead are tested for impairment, in accordance with ASC 350, at least annually at December 31 each year, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Company determines the fair value of its Domain Monetisation and Mobile reporting units using the income approach which utilizes a discounted cash flow model, as it believes that this approach best approximates the reporting unit's fair value. Judgments and assumptions related to revenue, gross margin, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, cash flows, and market conditions are inherent in developing the discounted cash flow model. The Company considers historical rates and current market conditions when determining the discounted and growth rates to use in its analyses. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for its goodwill.

Due to changes in compliance requirements, a handful of the Company's publishers have been deactivated, which resulted in negative impact on the Company's projected EBIDTA. As a result, the Company recorded goodwill impairment charges of \$15,984 related to its Domain Monetisation reporting unit, using a weighted average cost of capital and a long-term growth rate of 15% and 2%, accordingly. During the year ended 31 December 2018, the Company recorded goodwill impairment charges of \$30,648 related to its Mobile reporting unit, which is included in loss from discontinued operations, and \$5,014 related to its Domain Monetisation reporting unit. The majority of the inputs used in the discounted cash flow model to determine the fair value of the reporting units are unobservable and thus are considered to be Level 3 inputs.

- f. Restricted Cash:

In the first quarter of 2019, the Company adopted FASB ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"), which enhances and clarifies the guidance on the classification and presentation of restricted cash in the statement of cash flows and requires additional disclosures about restricted cash balances.

NOTE 3:- LEASES

In February 2016, the FASB issued ASU 2016-02, "Leases", on the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**US dollars in thousands (except share and per share data)****NOTE 3:- LEASES (Cont.)**

The Company has elected the short-term lease exception for leases with a term of 12 months or less. As part of this election it will not recognize right-of-use assets and lease liabilities on the balance sheet for leases with terms less than 12 months.

Some leases include one or more options to renew. The exercise of lease renewal options is typically at the Company's sole discretion; therefore, the majority of renewals to extend the lease terms are not included in our right of use assets and lease liabilities as they are not reasonably certain of exercise. The Company regularly evaluates the renewal options, and, when it is reasonably certain of exercise, it will include the renewal period in its lease term. Lease modifications result in remeasurement of the lease liability.

The right-of-use asset and lease liability are initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate based on the information available at the date of adoption in determining the present value of the lease payments.

The Company has operating leases for office space, that expire through 2025. Below is a summary of operating right-of-use assets and operating lease liabilities as of 31 March, 2019 (Unaudited):

	<u>\$</u>
Operating right-of-use assets	2,013
Operating lease liabilities, current	328
Operating lease liabilities long-term	<u>1,662</u>
Total operating lease liabilities	<u><u>1,990</u></u>

The short-term lease liabilities is included within accrued expenses and other short term liabilities in the consolidated balance sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands (except share and per share data)

NOTE 3:- LEASES (Cont.)

Minimum lease payments for our right of use assets over the remaining lease periods as of 31 March, 2019, are as follows:

	March 31, 2019 (unaudited)
2019	242
2020	323
2021	323
2022	323
2023	323
Thereafter	469
 Total undiscounted lease payments	 2,003
 Less: Interest	 (13)
Present value of lease liabilities	1,990

The weighted average remaining lease terms and discount rates for all of operating leases were as follows as of March 31, 2019:

Remaining lease term and discount rate:

Weighted average remaining lease term (years) 3.3

Weighted average discount rate 1.90%

Total rent expenses for the three months ended 31 March, 2019 and 2018 were \$90 and \$400, respectively.

NOTE 4:- BANK LOANS AND CREDIT LINE

In relation to the bank loans, bonds and credit lines, the Company is required to comply with certain covenants, as defined in the loan and bond agreements and its amendments. As of 31 March 2019, the Company was in full compliance with the financial covenants of its bank loan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**US dollars in thousands (except share and per share data)****NOTE 5:- CONVERTIBLE BOND**

In February 2018, the Company completed a public offering in Israel of convertible bonds (the "Bonds"). Through the issuance of the Bond, the Company raised a total gross consideration of ILS 103 million (approximately \$29,930 as of issuance date) issuing a total of 101,000 units of Bond, which bear a coupon of 5.5% per annum, payable semi-annually on June 30 and December 31 of each of the years 2018 to 2021 (inclusive). The interest is paid on a semi-annual basis. Interest prepayment, net of accrued interest in the amount of ILS 1.4 million (approximately \$ 393) is included in other receivables and prepaid expenses on the balance sheet as of 31 March 2019. Transaction costs amounted to \$1,588 and were expensed as incurred. The principal of the Bonds, denominated in ILS, is required to be repaid in two equal annual instalments commencing in December 2020. The Bonds are by their terms convertible into ordinary shares of the Company, at the discretion of the holders, up to ten (10) days prior to the final redemption date (i.e. December 21, 2021). The conversion price is subject to adjustment in the event that the Company effects a share split or reverse share split, rights offering or a distribution of bonus shares or a cash dividend. The Company may redeem the Bond upon delisting of the Bond from the TASE, subject to certain conditions. Refer to Note 1b for further information. As of 31 March 2019, the Company was not compliant with part of its bond covenants and as a result, the annual interest rate of the bonds increased to 6.5% per annum. Refer to Note 1b for further information on the Bonds and the bond covenants, including the potential consequences of noncompliance with such financial covenants.

The Company elected to apply the fair value option in accordance with ASC 825, "Financial Instruments", to the convertible bond and therefore all unrealized gains and losses are recognized in earnings. As of 31 March 2019, the fair value of the convertible bond, based on its quoted price at the TASE was \$19,828.

The changes of the convertible bond in the three months ended 31 March 2019 were as follows:

	<u>\$</u>
Balance 1 January 2019	\$ 18,540
Change in fair value	<u>1,288</u>
Balance as of 31 March, 2019 (Unaudited)	<u><u>\$ 19,828</u></u>

As of 31 March 2019, the aggregate principal annual payments of the bonds are as follows:

	Repayment amount
	<u>\$</u>
2020	13,904
2021	<u>13,904</u>
	<u><u>27,808</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands (except share and per share data)

NOTE 6:- EQUITY

- a. Options issued to employees and directors:

A summary of the activity in options granted to employees and directors is as follows:

	<u>Number of options</u>	<u>Weighted- average exercise price</u>	<u>Weighted- average remaining contractual term (in years)</u>	<u>Aggregate intrinsic value</u>
Outstanding at January 1, 2019	1,473,843	\$1.45	3.50	\$ 0
Granted	-	\$0		
Exercised	-	\$0		
Forfeited	<u>476,820</u>	<u>\$1.61</u>		
Outstanding at 31 March 2019 (unaudited)	<u>997,023</u>	<u>\$1.36</u>	<u>4.62</u>	<u>\$ 0</u>
Exercisable at 31 March 2019 (Unaudited)	<u>764,464</u>	<u>\$1.40</u>	<u>3.50</u>	<u>\$ 0</u>

As of 31 March 2019, the total compensation cost related to options granted to employees and directors, not yet recognized amounted to \$ 118.

- b. Restricted Share Units ("RSU") issued to employees and directors:

	<u>Number of RSU's</u>
Unvested at 1 January 2019	<u>38,500</u>
Granted	-
Vested	-
Forfeited	<u>(3,000)</u>
Unvested at 31 March 2019 (unaudited)	<u>35,500</u>

As of 31 March 2019, the total compensation cost related to RSUs granted to employees, not yet recognized amounted to \$ 29.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands (except share and per share data)

NOTE 7:- REPORTABLE SEGMENTS

a. General

In 2018, the Company's chief operating decision maker ("CODM") started to review and make decisions about resources based on three reporting segments consisting of Team internet, Mobfox and the remaining non-core activities which reflect the companies updated business activity and its focus strategic. Accordingly, for management purposes, the Company was organized into operating segments based on the products and services and had operating segments as follows:

- Mobile Advertising ("Mobfox") – Mobfox is a data-driven, supply-side platform (SSP) and exchange for mobile in-app advertising. Connected to developers and publishers, along with quality demand sources, Mobfox offers comprehensive support for all major mobile ad formats. Mobfox also offers media buying services on its myDSP demand-side platform (DSP). Following the sale in November 2018 this operating segment ceased to exist. For the year ended 31 December 2018 and three-month periods ended 31 March 2019 and 2018 this segment is reported as Discounted Operations in accordance with ASC 205-20.
- Domain Monetization – Team Internet serves the domain monetisation market and includes two brands which work seamlessly together to provide a complete offering. Parking Crew is a domain parking platform which integrates with many third-party applications. Tonic, the second platform, is a traffic marketplace that allows users to monetize traffic and target audiences with a variety of ad types.
- Non-core Activities – Matomy’s non-core activities include email marketing under the Whitedelivery brand and video advertising services under the Video from Matomy and Optimatic Media Inc. ("Optimatic") brands. Following the sale of certain activities and the restructuring of the remaining non-core activities, this operating segment ceased to exist.

Following the sale of certain activities and the restructuring of the remaining non-core activities, the Company operates only one segment the domain monetization.

b. Segments information:

	Three months ended 31 March		Year ended 31 December 2018
	2019	2018	
	Unaudited		
Revenues:			
Domain Monetisation	\$ 17,967	\$ 22,769	\$ 75,636
Other	-	5,983	13,098
Total revenues	\$ 17,967	\$ 28,572	\$ 88,734

MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands (except share and per share data)

NOTE 7:- REPORTABLE SEGMENTS (Cont.)

b. Segments information:

	Three months ended 31 March		Year ended 31 December 2018
	2019	2018	
	Unaudited		
Operating income :			
Domain Monetisation	1,818	4,619	14,181
Other	-	(2,668)	(4,089)
Reconciling items ⁽¹⁾	(16,969)	(2,336)	(18,445)
 Total loss from continuing operations	 \$ (15,151)	 \$ (385)	 \$ (8,353)

(1) Reconciling items are primarily related to impairment loss and depreciation and amortization costs for the three months ended March 31, 2019 and 2018 and for the year ended 31 December 2018, as well as corporate administrative costs and other miscellaneous items that are not allocated to individual segments.

The following includes the statement of operations of the domain monetization:

	Three months ended 31 March		Year ended 31 December 2018
	2019	2018	
	Unaudited		
Revenues	\$ 17,967	\$ 22,769	\$ 75,636
Cost of revenues	13,930	17,644	58,089
 Gross profit	 4,037	 5,126	 17,547
Operating expenses			
Research and development	137	135	455
Selling and marketing	931	1,053	3,792
General and administrative	511	336	1,775
Goodwill Impairment	15,984	-	5,014
Total operating expenses	17,563	1,524	11,036
 Operating income (loss)	 (13,526)	 3,602	 6,511
Financial expenses (income), net	(7)	314	(70)
 Income (loss) before taxes on income	 (13,519)	 3,288	 6,581
Tax on income	825	1,020	3,658
 Income (loss) before equity losses of affiliated companies	 (14,344)	 2,268	 2,923
 Net income (loss)	 (14,344)	 2,268	 2,923
Net loss attributable to non-controlling interests in subsidiaries	5	17	53

MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands (except share and per share data)

Net income (loss)	\$ (14,339)	\$ 2,285	\$ 2,976
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NOTE 7:- REPORTABLE SEGMENTS (Cont.)

c. Geographical information:

Revenues by geography are classified based on the location where the consumer completed the action that generated the relevant revenues.

1. Revenues from external customers:

	Three month ended 31 March 2019	Three month ended 31 March 2018	Year ended 31 December 2018
United States	\$ 10,192	\$ 18,107	\$ 55,665
Europe	5,523	6,836	22,709
Asia	849	1,360	3,483
Other	1,403	2,269	6,877
	\$ 17,967	\$ 28,572	\$ 88,734

2. Property and equipment, net:

	31 March 2019 (unaudited)	31 December 2018
Israel	\$-	\$53
Germany	1,360	1,360
	\$1,360	\$1,413

d. In the three months periods ended 31 March 2019 and 2018 and in the year ended 31 December 2018, one customer contributed 90%, 55% and 72% of the Company's revenues, while no other customer contributed more than 10%.

NOTE 8:- DISCONTINUED OPERATIONS

As a result of the sale of the Mobfox business, the operating results from the Mobfox mobile-core segment and the related assets and liabilities have been presented as discontinued operations in the consolidated financial statements for all periods presented. The results of operations from discontinued operations presented below include certain allocations that management believes fairly reflect the utilization of services provided to the former Mobfox segment. The allocations do not include amounts related to general corporate administrative expenses or interest expense. Therefore, the results of operations from the Mobfox segment do not necessarily reflect what the results of operations would have been had the former Mobfox segment operated as a stand-alone segment.

MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands (except share and per share data)

NOTE 8:- DISCONTINUED OPERATIONS (Cont.)

The following table summarizes the results of discontinued operations for the three months ended 31 March 2019 and 2018 and for the year ended 31 December 2018:

	Three months ended 31 March 2019 (Unaudited)	Three months ended 31 March 2018 (Unaudited)	Year ended 31 December 2018
Revenues	\$ -	\$ 9,011	\$ 34,774
Cost of revenues	-	8,351	31,422
Gross profit	-	660	3,352
Operating expenses			
Research and development	-	1,452	4,774
Selling and marketing	-	1,056	3,076
General and administrative	-	1,134	3,344
Impairment, net of change in fair value of contingent consideration	-	-	30,607
Restructuring costs	-	-	942
Loss from sale of activity	-	-	58
<u>Total operating expenses</u>	-	3,642	42,801
Operating loss	-	(2,982)	(39,449)
Tax on income	-	46	338
Loss from discontinued operations	-	\$(3,028)	\$(39,787)

The following table summarizes the assets and liabilities of discontinued operations as of 31 March 2019 and December 2018:

	31 March 2019 (Unaudited)	31 December 2018
ASSETS		
CURRENT ASSETS:		
Trade receivables, net	\$ 605	\$ 4,634
<u>Total current assets of discontinued operation</u>	605	4,634
<u>Total assets</u>	\$ 605	\$ 4,634

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands (except share and per share data)

NOTE 8:- DISCONTINUED OPERATIONS (Cont.)

	31 March 2019 (Unaudited)	31 December 2018
LIABILITIES		
CURRENT LIABILITIES:		
Trade payables	\$ 618	\$ 3,928
<u>Total</u> current liabilities of discontinued operation	618	3,928
<u>Total</u> liabilities of discontinued operation	\$ 618	\$ 3,928

NOTE 9:- SUBSEQUENT EVENTS

In June 2019, due to changes in compliance requirements, a handful of the Company's publishers have been deactivated, which resulted in negative impact on the Company's financial results (see also Note 2e). The immediate impact is estimated in a reduction of approximately \$ 700 in the second quarter profitability, and a further reduction in its projected profitability going forward.