

**WEBFIRM GROUP LIMITED (ABN 70 001 287 510)**  
**RESULTS FOR ANNOUNCEMENT TO THE MARKET**  
**Appendix 4E - Final report**

*Details of the reporting period and the previous corresponding period.*

|                               |                      |                     |
|-------------------------------|----------------------|---------------------|
| Reporting Period              | Financial Year ended | <b>30 June 2011</b> |
| Previous Corresponding Period | Financial Year ended | <b>30 June 2010</b> |

*The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities.*

|                                                                                                         |    |                  |
|---------------------------------------------------------------------------------------------------------|----|------------------|
| Revenue from ordinary activities                                                                        | \$ | <b>5,424,746</b> |
| Previous corresponding period                                                                           | \$ | <b>5,571,803</b> |
| Percentage change up or down from the previous corresponding period of revenue from ordinary activities | %  | <b>(2.64%)</b>   |

*The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members.*

|                                                                                                                                        |    |                     |
|----------------------------------------------------------------------------------------------------------------------------------------|----|---------------------|
| Loss from ordinary activities after tax                                                                                                | \$ | <b>(10,341,829)</b> |
| Previous corresponding period                                                                                                          | \$ | <b>(4,218,601)</b>  |
| Percentage change up or down from the previous corresponding period of loss from ordinary activities after tax attributable to members | %  | <b>(145.15%)</b>    |

*The amount and percentage change up or down from the previous corresponding period of net profit (loss) for the period attributable to members.*

|                                                                                                                        |    |                     |
|------------------------------------------------------------------------------------------------------------------------|----|---------------------|
| Profit (loss) attributable to members                                                                                  | \$ | <b>(10,341,829)</b> |
| Previous corresponding period                                                                                          | \$ | <b>(4,218,601)</b>  |
| Percentage change up or down from the previous corresponding period of net loss for the period attributable to members | %  | <b>(145.15%)</b>    |

*The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends.*

No dividends proposed relating to the reporting period

*Net tangible assets per security with the comparative figure for the previous corresponding period.*

|                               |       |             |
|-------------------------------|-------|-------------|
| Reporting Period              | cents | <b>2.52</b> |
| Previous Corresponding Period | cents | <b>0.65</b> |

**Audited results**

This report is based on the following financial statements that have been the subject of an independent audit and are not subject to any dispute or qualification.

**Other Appendix 4E disclosures**

Additional Appendix 4E disclosures can be found in the attached Webfirm Group Limited financial statements.

# **WEBFIRM GROUP LIMITED**

ABN 70 001 287 510

## **FINANCIAL STATEMENTS**

**for the year ended 30 June 2011**

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## Directors' Report

Your Directors present their report, together with the financial report of Webfirm Group Limited ACN 001 287 510 ('the Company') and its controlled entities ('the Group') for the financial year ended 30 June 2011 and the auditor's report thereon.

### Information on Directors

Mr Adrian Giles, Mr Andrew Barlow, Mr David Burden and Mr Anthony Du Preez were directors for the whole financial year and up to the date of this report.

Mr Chris Morris was appointed as a non-executive director on 20 September 2010.

Mr Adrian Vanzyl resigned from his appointment as a non-executive director on 20 June 2011.

Ms Tiffany Fuller was appointed as a non-executive director on 20 June 2011.

**Mr Adrian Giles**  
**Executive Chairman**  
**(Age 37)**

Adrian Giles is an entrepreneur specialising in the Internet and information technology industry. In 1997, Adrian co-founded Australia's first Search Engine Optimisation company, Sinewave Interactive, with fellow entrepreneur Andrew Barlow. In 1998 Adrian and Andrew co-founded Hitwise. Hitwise grew over 10 years to become one of the most recognised global internet measurement brands with over 300 staff operating successfully in the USA, UK, Australia, NZ, Hong Kong, and Singapore. By monitoring more than 25 Million Internet users via more than 40 ISP relationships worldwide, Hitwise provided competitive ratings of the most popular businesses across more than 160 industries and in 6 key markets. Whilst positioning the company for a NASDAQ listing in early 2007 Hitwise was sold to Experian (LSE: EXPN) for US\$240m. Throughout its growth Hitwise was ranked by Deloitte's as one of the fastest growing IT companies in the Asia Pacific region for five consecutive years. Hitwise was also a winner of the Victorian Small Business Awards; was awarded the 'Most Innovative Digital Business' in the UK for 2004; and was awarded a finalist as 'Most Innovative Company' at the 2005 American Business Awards in New York. Adrian was also a finalist in the 2003 Australian 'Entrepreneur of the Year' awards. Adrian is also the Managing Director of Yarra Ventures an advisory and private investment fund he formed after the sale of Hitwise.

Adrian is a member of the Remuneration Committee and the Audit & Risk Committee.

**Andrew Barlow**  
**Executive Director**  
**(Age 38)**

Mr Barlow is an experienced entrepreneur who acts as an investor and mentor to early-stage technology companies with unique IP, highly scalable business models and strong executive teams. Mr Barlow co-founded Hitwise with Adrian Giles in 1997, was Chairman and Managing Director of Hitwise from 1997 – 2000, and Director of R&D from 2000 – 2002. Hitwise was ranked one of the Top 10 fastest growing companies by Deloitte for five years running, before being sold to Experian Group (LSX.EXP) in May 2007 for US\$240m. Mr Barlow is also a co-founder of Adslot, a revenue optimisation platform for online media publishers, which was acquired by Webfirm Group in February 2010. Mr Barlow is also a former Chairman of Webfirm Group Limited (October 2007 – October 2009).

Mr Barlow is the Founder of Venturian, a privately-owned venture capital fund with investments in a number of other technology ventures, including Nitro PDF (the second biggest distributor of PDF editing software in the world), Brandscreen (Asia's leading demand side platform for online media buying) and QMCodes (which makes print media interactive via mobile devices). Mr Barlow has significant expertise in online media and business building with a strong understanding of the UK and North America markets.

Andrew is Chair of the Remuneration Committee.

**Mr David Burden**  
**Managing Director**  
**Chief Executive Officer**  
**(Age 49)**

David Burden is an entrepreneur and one of the true pioneers of interactive marketing and services within Australia. David founded Australia's largest and best-recognised interactive and mobile services company Legion Interactive in 1994. As CEO from 1994 to 2006, David spearheaded the evolution and growth of the product, the growth of the sales and marketing and Research & IT Development teams, and guided the business through its MBO from the French Lagardere Group in 2001, the acquisition of BlueSkyFrog (Australia's first mobile ringtone company) and MediaZoo and the subsequent push of the business into the mobile space commencing in 1998. During his time at Legion, David was a worthy Industry Activist with leading roles on the Premium Rate Advisory Council (PRAC), the Telephone Information Services Standards (TISSC) and the Vice Chairman of Australian Direct Marketing Association (ADMA). David was also founding Chairman of ADMA's Mobile Marketing Council which was primarily responsible for the introduction of regulation and consumer protection for mobile services.

**Dr Anthony Du Preez**  
**Executive Director**  
**(Age 42)**

Anthony Du Preez is the co-founder of both Tradeslot and Adslot. He has spent the last 11 years designing and building auction-based markets for a range of industries including logistics, supply chain, port capacity, forestry timber, energy, and carbon permits. Anthony has developed a unique combinatorial auction technology that can process premium 'conditional bids'. This proven technology enables the establishment of efficient auction based markets in complex sales environments that have traditionally been served by face-to-face sales and one-on-one negotiations. This unique and patented technology has significant application for selling premium display/video ad space in the media sector.

Previously, Anthony worked as business development executive for Honeywell Aerospace division in the North American and European markets. Anthony has a Bachelor of Engineering (First Class Honours), and a MBA from the Melbourne School. Anthony also completed an advanced management post graduate certificate at Berkley University in San Francisco.

**Mr Chris Morris**  
**Non-Executive Director**  
**(Age 63)**

Chris Morris is among Australia's most accomplished entrepreneurs and business leaders, having founded Computershare (ASX:CPU) in 1978 – one of Australia's most successful global technology companies. Mr Morris was Chief Executive Officer of Computershare from 1990 to 2006, and Executive Chairman from 2006 to 2010. He is now Non-Executive Chairman of Computershare.

Mr Morris has extensive knowledge of the securities industry from both a national and international perspective, and his diverse experience in building and managing large global enterprise will aid Webfirm in its international expansion aspirations.

Chris is a member of the Remuneration Committee and also the Audit & Risk Committee. Chris is also Chair of Car Parking Technologies Limited.

**Ms Tiffany Fuller**  
**Non-Executive Director**  
**(Age 41)**

Ms Fuller is a qualified Chartered Accountant who has a 20 year career across Chartered Accounting, Corporate Finance, Investment Banking and Private Equity. Ms Fuller joined Rothschild Australia in 1997 in the Investment Banking Group after 8 years at Arthur Andersen in Audit, Corporate Finance and Management Consulting in Australia, UK and the United States.

At Rothschild, Ms Fuller advised various public and private clients, was responsible for managing a Microcap Fund on behalf of a number of Australia's large superannuation funds, and was a founding director of the Rothschild e-Fund, a technology focused venture capital fund. In her roles Tiffany has worked closely with emerging technology companies at Board level and as corporate adviser.

Tiffany is Chair of the Audit & Risk Committee. Tiffany is also a Non-Executive Director of Car Parking Technologies Limited.

**Mr Brendan Maher**  
**Company Secretary**  
**(Age 43)**

Brendan Maher joined the Company on 15 November 2010 as a qualified Chartered Accountant with 23 years experience gained both in Australia and overseas with Arthur Andersen, National Westminster Bank and Skilled Group Limited.

Mr Maher has extensive experience in financial reporting, corporate transactions and was Company Secretary at ASX listed Skilled Group Limited prior to joining.

Mr Maher is a member of the Institute of Chartered Accountants in Australia and also a member of the Australian Institute of Company Directors.

**Directorships of other listed companies**

Other than those disclosed on pages 3 to 4 of this Annual Report no director holds a Directorship in any other listed companies in the three year period immediately before the end of the financial year.

**Director' shareholdings**

The following table sets out each director's relevant interest in share or options in shares of the company as at the date of this report.

| <b>Directors</b>    | <b>Ordinary Shares</b> | <b>Share Options</b> |
|---------------------|------------------------|----------------------|
|                     | <b>#</b>               | <b>#</b>             |
| Mr Adrian Giles     | 18,421,288             | 13,800,001           |
| Mr Andrew Barlow    | 57,140,133             | 9,900,001            |
| Mr David Burden     | 5,631,499              | 13,000,000           |
| Mr Anthony Du Preez | 12,968,051             | 8,500,000            |
| Mr Chris Morris     | 57,130,848             | -                    |
| Ms Tiffany Fuller   | 100,000                | -                    |

**Remuneration of directors and senior management**

Information about the remuneration of directors and senior management is set out in the remuneration report of this directors' report.

**Principal activities**

The company operates two main divisions:

The Adslot division allows media publishers to automate, control and optimise their premium advertising inventory and listings, increasing their yield, while simultaneously introducing automation that improves internal efficiencies, decreasing sales and administration costs; and

The Webfirm division offers online marketing services including website optimisation, hosting, search engine marketing (paid search advertising), social media marketing and website amendments.

**Changes in state of affairs**

A material addition to the nature of the activities during the year was the acquisitions of Adimise Pty Ltd, Full Circle Online Pty Ltd and QDC IP Technologies Pty Ltd which added ad serving and automated ad creation functionality to the Adslot platform providing a full end to end automated sale process for on line publishers to sell their advertising inventory.

**Operating results**

The consolidated operating loss after income tax attributable to the members of Webfirm Group Limited is \$10,341,829 (2010: Loss \$4,218,601).

## **Review of operations**

### ***Webfirm Division***

The Webfirm Division offers products and services aimed at helping small and medium enterprise (SME) customers grow their business online.

During the year, the Company made the decision to exit the highly competitive web-site creation business and focus primarily on online marketing services including, search engine optimisation, paid search marketing, social marketing, website hosting and web-site amendments. The web development business was wound down in the second half of the year, and it is expected all outstanding website's will have been built and commissioned by September 2011.

The result of this restructuring leaves the Webfirm Division with a significantly reduced cost base moving forward and allows it to focus on the profitable and growing online marketing services area of the business. The Directors have decided to undertake a strategic review of the Webfirm Division to determine the future strategy and focus for this division. As a result of this and historic losses in the division, the Directors have decided to write down the goodwill in this division to zero by taking a \$2.5 million impairment charge this year.

During the year, the Company also decided to exit it's search syndication business, and sold its AdFeed Engine software.

### ***Adslot Division***

The Adslot Division provides advertising sales automation services that reduce selling costs and increase advertising revenue for its publisher clients.

The Adslot Division was created via the acquisition of three core pieces of technology:

- In February 2010, the Company acquired Adslot Pty Ltd which provides the core automated ad sales and yield optimisation platform;
- In July 2010, the Company acquired Adimise Pty Ltd which provides ad serving capability; and
- In December 2010, the Company acquired QDC IP Technologies Pty Ltd which owned the DIY ad-creation software, Ad Builder.

During the year, the Company successfully integrated these separate pieces of technology to create a complete end-to-end platform. The first full client implementation of the end-to-end platform will be completed in September 2011 into SeLogger, France's largest property portal.

The Company expects to leverage the learnings and sizable investment made in this product roll-out for future clients, which will ensure faster and more efficient deployment, customisation and implementation of the solution.

### ***Corporate***

The Company completed the acquisitions of Full Circle Online Pty Ltd, Adimise Pty Ltd and QDC IP Technologies Pty Ltd through the year. It also raised over \$20M in capital through an entitlement offer to shareholders and a placement to sophisticated and professional investors.

Webfirm Group Limited is exposed to the rapidly evolving digital media industry and its associated risks, however the existing and emerging opportunities make it an exciting space in which to operate. The potential rewards from the emerging opportunities could be substantial.

Group revenues were down 2.6% on the previous year, to \$5.4 million primarily due to the exit of the search syndication business in Webfirm. The net loss after tax at \$10.3 million was greater than FY10 primarily due to the investment in people in the Adslot division to create the end-to-end client platform that will drive revenues in future years, the Depreciation and Amortisation charge (largely amortisation of acquired Adslot intangibles) and the Goodwill impairment charge.

This result included approximately \$5.7 million in non-cash losses consisting of \$2.7 million impairment charge, \$0.8 million of non-cash share based expenses, and \$2.2 million in depreciation and amortisation expenses.

### **Matters Subsequent to the end of the financial year**

In August 2011 the purchaser of the AdFeed Engine, which was sold by us in September 2010, exercised their right to terminate the Sale Agreement. As a result no further earn out payments under that sale agreement will be earned by the Group. The amount carried at June 2011 for future earn out entitlement has been collected, as such this has no impact of the reported profit of the Group.

Other than this there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future years.

### **Likely future developments and expected results**

Disclosure of information regarding likely developments in the operations of consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

### **Environmental regulations**

The economic entity's operations are not subject to any significant environmental regulations under the Commonwealth, State or any other country in which the entity operates.

### **Dividends**

The Directors do not recommend the declaration of a dividend. No dividend has been declared or paid during the year.

### **Shares under option**

Details of unissued shares or interests under option as at the date of signing this report are:

| <b>Issue Type</b>            | <b>Expiry Date</b> | <b>Exercise Price</b> | <b>Number under option</b> |
|------------------------------|--------------------|-----------------------|----------------------------|
| Options over ordinary shares | 30 Jun 2012        | \$0.10                | 6,200,003                  |
| Options over ordinary shares | 22 Oct 2012        | \$0.09                | 1,000,000                  |
| Options over ordinary shares | 31 Jan 2013        | \$0.053               | 51,700,000                 |
| Options over ordinary shares | 31 Jan 2013        | \$0.056               | 10,180,000                 |
| Options over ordinary shares | 8 Jul 2014         | \$0.151               | 2,000,000                  |
| Options over ordinary shares | 29 Aug 2014        | \$0.096               | 309,589                    |
| Options over ordinary shares | 30 Sep 2014        | \$0.116               | 3,000,000                  |
| Options over ordinary shares | 30 Sep 2014        | \$0.190               | 300,000                    |
| <b>Total</b>                 |                    |                       | <b>74,689,592</b>          |

Details of shares or interests issued during or since the end of the financial year as a result of exercise of an option are:

| <b>Class of Share</b> | <b>Number of shares issued</b> | <b>Amount paid per share</b> | <b>Amount unpaid per share</b> |
|-----------------------|--------------------------------|------------------------------|--------------------------------|
| Ordinary options      | 900,000                        | \$0.10                       | Nil                            |
| Ordinary options      | 1,000,000                      | \$0.09                       | Nil                            |
| Ordinary options      | 1,720,000                      | \$0.056                      | Nil                            |

### **Indemnification and Insurance of Officers**

The Company has during the financial year, in respect of each person who is or has been an officer of the company or a related body Corporate, made a relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

Since the end of the financial year, the Company has paid premiums to insure all directors and officers of Webfirm Group Limited and the Webfirm Group of companies, against costs incurred in defending any legal proceedings arising out of their conduct as a director and officer of the Company, other than for conduct involving a wilful breach of duty or a contravention of Sections 232(5) or (6) of the *Corporations Act 2011*, as permitted by section 241A(3) of the Corporations Act. Disclosure of the premium amount is prohibited by the insurance contract.

### **Directors' Meetings**

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2011 and the number of meetings attended by each Director.

| <b>Directors</b>    | <b>Board of Directors</b> |                 | <b>Remuneration Committee</b> |                 |
|---------------------|---------------------------|-----------------|-------------------------------|-----------------|
|                     | <b>Held</b>               | <b>Attended</b> | <b>Held</b>                   | <b>Attended</b> |
| Mr Adrian Giles     | 8                         | 8               | 1                             | 1               |
| Mr Andrew Barlow    | 8                         | 8               | 1                             | 1               |
| Mr David Burden     | 8                         | 8               | -                             | -               |
| Mr Anthony Du Preez | 8                         | 8               | -                             | -               |
| Mr Adrian Vanzyl    | 7                         | 7               | -                             | -               |
| Mr Chris Morris     | 6                         | 6               | 1                             | 1               |
| Ms Tiffany Fuller   | 1                         | 1               | -                             | -               |

During the financial year 2011 all audit & risk matters have been attended to by the full board in consultation with the Company's auditors. The Company formed an Audit & Risk Committee in July 2011.

### **Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

### **Auditor's Independence Declaration**

The auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 18 of the financial report.

## REMUNERATION REPORT

The remuneration report is set out under the following headings:

- Section 1: Non-executive directors remuneration
- Section 2: Executive Remuneration
- Section 3: Details of remuneration
- Section 4: Executive contracts of employment
- Section 5: Equity-based compensation

### Section 1: Non-executive remuneration

Non-executive directors' fees are reviewed annually and are determined by the Board. In making it's determination it takes into account fees paid to other non-executive directors of comparable companies and, where necessary, will seek external advice.

Non-executive directors' fees are within the maximum aggregate limit of \$350,000 per annum agreed to by shareholders at the Annual General Meeting held on 30 November 2009. To preserve the independence and integrity of their position, non-executive directors do not receive performance based bonuses.

Non-executive directors fees are \$50,000 per annum. In addition the Chair of the Audit & Risk Committee receives an additional \$25,000 in recognition of the additional workload of that position.

### Section 2: Executive remuneration

The Board of Directors are responsible for determining and reviewing compensation arrangements for key management personnel and the executive team. In June 2011 the Company established a Remuneration Committee who now makes recommendations on remuneration of key management personnel.

The Board assesses the appropriateness of the nature and amount of emoluments of these employees on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of high quality executives. Executives' remuneration consists of a fixed cash component, short-term incentives in the form of cash bonuses, and long-term incentives in the form of equity based compensation linked to the performance of the Company. The inclusion of equity-based compensation in executives' remuneration provides a direct link between their remuneration and shareholder wealth, otherwise there are no direct relationships.

### Section 3: Details of remuneration

Details of the remuneration of the directors and the key management of the Company and its controlled entities are set out in the following tables.

The key management personnel of Webfirm Group Limited and its controlled entities include the following directors and executive officers:

| <b>Directors</b>          | <b>Position</b>                                                        | <b>Date appointed/resigned</b>                                          |
|---------------------------|------------------------------------------------------------------------|-------------------------------------------------------------------------|
| Mr Andrew Barlow          | Non-Executive Director<br>Executive Director                           | Appointed 16 February 2010<br>From 13 April 2010                        |
| Mr Adrian Giles           | Non-Executive Director<br>Non-Executive Chairman<br>Executive Chairman | Appointed 19 December 2007<br>From 8 October 2009<br>From 13 April 2010 |
| Mr David Burden           | Chief Executive Officer<br>Managing Director                           | Appointed 6 February 2008<br>From 8 April 2008                          |
| Mr Adrian Vanzyl          | Non-Executive Director                                                 | Appointed 28 April 2008<br>Resigned 20 June 2011                        |
| Mr Anthony Du Preez       | Executive Director                                                     | Appointed 22 February 2010                                              |
| Mr Chris Morris           | Non-Executive Director                                                 | Appointed 20 September 2010                                             |
| Ms Tiffany Fuller         | Non-Executive Director                                                 | Appointed 20 June 2011                                                  |
| <b>Executive Officers</b> |                                                                        |                                                                         |
| Mr Gavan Flower           | Company Secretary / Chief Financial Officer                            | Resigned 13 September 2010                                              |
| Mr Damian Element         | Company Secretary / Chief Financial Officer                            | Appointed 13 September 2010<br>Resigned 15 November 2010                |
| Mr Brendan Maher          | Company Secretary / Chief Financial Officer                            | Appointed 15 November 2010                                              |
| Mr Mathew Chamley**       | Regional General Manager – Webfirm Pty Ltd                             | Appointed 28 July 2009                                                  |

\*\* Mr Matthew Chamley's employment ceased on 20 July 2011.

### Section 3: Details of remuneration (Continued)

| Consolidated Entity 2011              | Short-term benefits |                |               | Long term benefits      | Post-employment benefits | Share-based payment |                  |                                              |
|---------------------------------------|---------------------|----------------|---------------|-------------------------|--------------------------|---------------------|------------------|----------------------------------------------|
| Name                                  | Salary & fees \$    | Bonus \$       | Other \$      | Termination benefits \$ | Superannuation \$        | Options & rights \$ | Total \$         | % of remuneration that consists of options % |
| <i>Executive directors</i>            |                     |                |               |                         |                          |                     |                  |                                              |
| Mr A Giles                            | 86,213              | -              | -             | -                       | -                        | 89,473              | 175,686          | 50.9%                                        |
| Mr A Barlow                           | 67,740              | -              | -             | -                       | -                        | 61,333              | 129,073          | 47.5%                                        |
| Mr D Burden                           | 308,354             | 87,000         | 2,755         | -                       | 15,199                   | 93,799              | 507,107          | 18.5%                                        |
| Mr A Du Preez                         | 173,191             | 9,001          | 7,086         | -                       | 14,884                   | 61,330              | 265,492          | 23.1%                                        |
| <i>Non-executive directors</i>        |                     |                |               |                         |                          |                     |                  |                                              |
| Mr A Vanzyl (i)                       | 48,750              | -              | -             | -                       | -                        | 54,840              | 103,590          | 52.9%                                        |
| Mr C Morris (ii)                      | 37,500              | -              | -             | -                       | -                        | -                   | 37,500           | -                                            |
| Ms T Fuller (iii)                     | 2,083               | -              | -             | -                       | -                        | -                   | 2,083            | -                                            |
| <i>Other key management personnel</i> |                     |                |               |                         |                          |                     |                  |                                              |
| Mr G Flower (iv)                      | 38,169              | -              | (1,323)       | 19,584                  | 3,075                    | 32,015              | 91,520           | 35.0%                                        |
| Mr D Element (v)                      | 103,858             | 5,000          | 1,640         | -                       | 375                      | -                   | 110,873          | -                                            |
| Mr B Maher (vi)                       | 155,500             | -              | 8,171         | -                       | 10,133                   | -                   | 173,804          | -                                            |
| Mr M Chamley                          | 139,615             | -              | 17,431        | -                       | 14,788                   | 44,784              | 216,618          | 20.7%                                        |
| <b>Totals</b>                         | <b>1,160,973</b>    | <b>101,001</b> | <b>35,760</b> | <b>19,584</b>           | <b>58,454</b>            | <b>437,574</b>      | <b>1,813,346</b> | <b>24.1%</b>                                 |

- (i) to 20 June 2011  
(ii) from 20 September 2010  
(iii) from 20 June 2011  
(iv) to 13 September 2010  
(v) to 15 November 2010  
(vi) from 15 November 2010

#### Bonuses

Bonuses appearing in the table above were paid for the year ended 30 June 2011 as follows:

| Name          | Amount Paid \$ | Amount available in future periods \$ | Total Bonus Opportunity \$ | Assessment Criteria                                                  |
|---------------|----------------|---------------------------------------|----------------------------|----------------------------------------------------------------------|
| Mr D Burden   | 87,000         | 12,500                                | 161,200                    | New client signings, client platform volumes, divisional performance |
| Mr A Du Preez | 9,001          | 28,333                                | 40,000                     | New client signings, product launch and product pilots               |
| Mr D Element  | 5,000          | -                                     | 25,000                     | Reporting, Governance and other performance related KPI's            |

### Section 3: Details of remuneration (Continued)

| Consolidated Entity 2010              | Short-term benefits |               |               | Long term benefits      |                          | Post-employment benefits | Share-based payment |                     |                  |                                              |
|---------------------------------------|---------------------|---------------|---------------|-------------------------|--------------------------|--------------------------|---------------------|---------------------|------------------|----------------------------------------------|
| Name                                  | Salary & fees \$    | Bonus \$      | Other \$      | Termination benefits \$ | Long service employee \$ | Superannuation \$        | Shares \$           | Options & rights \$ | Total \$         | % of remuneration that consists of options % |
| <i>Executive directors</i>            |                     |               |               |                         |                          |                          |                     |                     |                  |                                              |
| Mr A Giles                            | 68,750              | -             | -             | -                       | -                        | -                        | -                   | 199,635             | 268,385          | 74.4%                                        |
| Mr A Barlow                           | 49,314              | -             | -             | -                       | -                        | -                        | -                   | 136,581             | 185,895          | 73.5%                                        |
| Mr D Burden                           | 341,753             | -             | (14,231)      | -                       | -                        | 14,461                   | -                   | 210,180             | 552,163          | 38.1%                                        |
| Mr A Du Preez (i)                     | 56,250              | -             | 9,098         | -                       | -                        | 5,063                    | -                   | 137,425             | 207,836          | 66.1%                                        |
| <i>Non-executive directors</i>        |                     |               |               |                         |                          |                          |                     |                     |                  |                                              |
| Mr A Vanzyl                           | 50,000              | -             | -             | -                       | -                        | -                        | -                   | 122,030             | 172,030          | 70.9%                                        |
| <i>Other key management personnel</i> |                     |               |               |                         |                          |                          |                     |                     |                  |                                              |
| Mr D Element (ii)                     | 209,779             | 25,000        | 43,533        | -                       | -                        | 21,427                   | -                   | 91,094              | 390,833          | 29.7%                                        |
| Mr G Flower (iii)                     | 18,185              | -             | 1,323         | -                       | -                        | 1,637                    | -                   | -                   | 21,145           | -                                            |
| Mr A Beecher (iv)                     | 52,439              | -             | (10,235)      | -                       | -                        | 2,410                    | -                   | 9,254               | 53,868           | 17.2%                                        |
| Mr M Chamley (v)                      | 134,999             | -             | 34,573        | -                       | -                        | 14,841                   | 1,000               | 22,045              | 207,458          | 10.6%                                        |
| Mr J Edis (iv)                        | 75,340              | -             | (5,360)       | 50,314                  | (11,252)                 | 4,820                    | -                   | 9,254               | 123,116          | 7.3%                                         |
| Mr S Jones (vi)                       | 94,812              | -             | 9,710         | 30,963                  | -                        | 9,532                    | 1,000               | 12,560              | 158,577          | 7.9%                                         |
| <b>Totals</b>                         | <b>1,151,621</b>    | <b>25,000</b> | <b>68,411</b> | <b>81,277</b>           | <b>(11,252)</b>          | <b>74,191</b>            | <b>2,000</b>        | <b>950,058</b>      | <b>2,341,306</b> | <b>40.6%</b>                                 |

- (i) from 16 February 2010  
(ii) to 28 May 2010  
(iii) from 24 May 2010  
(iv) to 31 August 2009  
(v) from 1 July 2009  
(vi) to 8 April 2010

## REMUNERATION REPORT (Continued)

### Section 4. Executive contracts of employment

Formal contracts of employment for all members of the key management personnel are in place. Contractual terms for most executives are similar but do, on occasions, vary to suit different needs. The following table summarises the key contract terms.

|                                           |                                                                                                                                                                                                                                                 |
|-------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Length of contract</b>                 | Open ended                                                                                                                                                                                                                                      |
| <b>Fixed Remuneration</b>                 | Remuneration comprises salary and statutory employer superannuation contributions.                                                                                                                                                              |
| <b>Incentive Plans</b>                    | Eligible to participate. Incentive criteria and award opportunities vary for each executive.                                                                                                                                                    |
| <b>Notice Period</b>                      | All members of the key management, including executive directors, have a notice period of between two and six months with the exception of Mr Giles and Mr Barlow who may terminate their contract of employment immediately upon their notice. |
| <b>Resignation</b>                        | Employment may be terminated by giving notice consistent with the notice period.                                                                                                                                                                |
| <b>Retirement</b>                         | There are no financial entitlements due from the Company on retirement of an executive.                                                                                                                                                         |
| <b>Termination by the Company</b>         | The Company may terminate the employment agreement by providing notice consistent with the notice period or payment in lieu of the notice period.                                                                                               |
| <b>Redundancy</b>                         | Payments for redundancy are discretionary and are determined having regard to the particular circumstances. There are no contractual commitments to pay redundancy over and above any statutory entitlement.                                    |
| <b>Termination for serious misconduct</b> | The Company may terminate the employment agreement at any time without notice, and the executive will be entitled to payment of remuneration only up to the date of termination.                                                                |

## REMUNERATION REPORT (Continued)

### Section 5: Equity-based compensation

#### *Employee share ownership plan (ESOP)*

The Company has operated an ownership-based scheme for executives and senior employees of the Group. This was approved by shareholders at the 2009 Annual General Meeting. Awards were made under this plan up to October 2010 such that senior employees and an executive were granted options to purchase parcels of ordinary shares at an exercise prices ranging from 9.6 cents to 19.0 cents per ordinary share.

Each share option converts into one ordinary share of Webfirm Group Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry no voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

All Option tranches are based on the individual remaining an employee of the Group. The plan rules allow departed employees to retain their options for a period of time based on the length of their service with the Company and the nature of their separation from the Company. The board considered these conditions appropriate to ensure the objective of maintaining key staff within the Company. The issue of share options are not subject to performance conditions.

There is no board policy in place to limit the executive and senior employees exposure to the risk in relation to the options issued.

The following table shows grants of share-based compensation to directors and senior management under the ESOP for the current financial year:

| Name            | Option Series       | During the Financial year |               |                   |                      | % of Compensation for the year Consisting of Options |
|-----------------|---------------------|---------------------------|---------------|-------------------|----------------------|------------------------------------------------------|
|                 |                     | Number Granted            | Number Vested | % of Grant Vested | % of Grant Forfeited |                                                      |
| Mr G Flower (i) | Issued on 30 Aug 10 | 3,000,000                 | 309,589       | 10.32%            | 89.68%               | 35.0%                                                |

(i) These options were issued under the ESOP to Mr Gavan Flower under his Employment Agreement. Upon Mr Flower's resignation from the Company on 13 September 2010; 2,690,411 of these options were forfeited on that date with balance 309,589 retained. These vested on 8 April 2011. The Company has valued these options in accordance with accounting standards at \$32,015 which was expensed this year.

## REMUNERATION REPORT (Continued)

### Section 5: Equity-based compensation (continued)

The following options were granted to key management personnel during the year:

#### Options - 2011

| Issue Date  | Number of Options | Expiry Date | Exercise Price \$ | Value of options at grant date | Fair Value Per Option \$ | Date vested and exercisable |
|-------------|-------------------|-------------|-------------------|--------------------------------|--------------------------|-----------------------------|
| 30-Aug-2010 | 3,000,000         | 29-Aug-2014 | 0.096             | 344,700                        | 0.1149                   | 08-Apr-2011                 |
|             |                   |             |                   | <b>344,700</b>                 |                          |                             |

The following options were granted to key management personnel during the prior year:

#### Options - 2010

| Issue Date  | Number of Options | Expiry Date | Exercise Price \$ | Value of options at grant date | Fair Value Per Option \$ | Date vested and exercisable |
|-------------|-------------------|-------------|-------------------|--------------------------------|--------------------------|-----------------------------|
| 16-Feb-2010 | 27,600,000        | 31-Jan-2013 | 0.053             | 645,371                        | 0.0234                   | 16-Feb-2010                 |
| 16-Feb-2010 | 24,100,000        | 31-Jan-2013 | 0.053             | 563,530                        | 0.0234                   | 01-Feb-2011                 |
| 16-Feb-2010 | 2,300,000         | 31-Jan-2013 | 0.056             | 161,081                        | 0.0231                   | 16-Feb-2011                 |
| 16-Feb-2010 | 2,300,000         | 31-Jan-2013 | 0.056             | 143,083                        | 0.0231                   | 16-Feb-2012                 |
|             |                   |             |                   | <b>1,513,065</b>               |                          |                             |

The exercise price of the options is based on a pre-set exercise price. Options granted carry no dividend or voting rights. There is no Board policy in place to limit the executive employees' exposure to risk in relation to securities issued as remuneration.

## REMUNERATION REPORT (Continued)

### Section 5: Equity-based compensation (continued)

Details of options over ordinary shares in the company provided as remuneration of directors and the key management personnel of the Company are set out below:

| Name                                  | Options Granted During the Year |           |            |           | Options Vested During the Year |          |           |           |
|---------------------------------------|---------------------------------|-----------|------------|-----------|--------------------------------|----------|-----------|-----------|
|                                       | 2011                            |           | 2010       |           | 2011                           |          | 2010      |           |
|                                       | Number                          | \$        | Number     | \$        | Number                         | \$       | Number    | \$        |
| <b>Directors</b>                      |                                 |           |            |           |                                |          |           |           |
| Mr Adrian Giles                       | -                               | -         | 11,800,000 | \$275,919 | 5,900,000                      | \$85,141 | 6,566,667 | \$164,626 |
| Mr David Burden                       | -                               | -         | 13,000,000 | \$303,979 | 6,500,000                      | \$93,799 | 6,500,000 | \$151,989 |
| Mr Andrew Barlow                      | -                               | -         | 7,900,000  | \$184,726 | 3,950,000                      | \$57,001 | 4,616,667 | \$119,029 |
| Mr Adrian Vanzyl                      | -                               | -         | 7,000,000  | \$163,681 | 3,500,000                      | \$50,507 | 4,166,667 | \$108,571 |
| Mr Chris Morris                       | -                               | -         | -          | -         | -                              | -        | -         | -         |
| Ms Tiffany Fuller                     | -                               | -         | -          | -         | -                              | -        | -         | -         |
| Mr Anthony Du Preez                   | -                               | -         | 8,500,000  | \$198,755 | 4,250,000                      | \$61,330 | 4,250,000 | \$99,378  |
| <b>Other Key Management Personnel</b> |                                 |           |            |           |                                |          |           |           |
| Mr D Element                          | -                               | -         | 3,500,000  | \$81,840  | -                              | -        | 3,500,000 | \$81,840  |
| Mr B Maher                            | -                               | -         | -          | -         | -                              | -        | -         | -         |
| Mr M Chamley                          | -                               | -         | 4,000,000  | \$92,400  | 2,000,000                      | \$26,308 | -         | -         |
| Mr G Flower                           | 3,000,000                       | \$344,700 | -          | -         | 309,589                        | \$32,015 | -         | -         |
| Mr S Jones                            | -                               | -         | 600,000    | \$13,860  | -                              | -        | -         | -         |
| Mr J Edis                             | -                               | -         | -          | -         | -                              | -        | -         | -         |
| Mr J Beecher                          | -                               | -         | -          | -         | -                              | -        | -         | -         |

The assessed fair value at issue date of the options granted to the executive is allocated equally over the period from issue date to vesting date, and the amount is included in the remuneration tables above. Fair values at issue date are independently determined using the binomial option pricing model that takes into account the exercise price, the term of the option, the share price at issue date and the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. The model inputs for options granted during the year ended 30 June 2011 included:

| Model Input                   | Class #1 |
|-------------------------------|----------|
| Grant Date                    | 30/08/10 |
| Exercise Date                 | 08/04/11 |
| Expiry Date                   | 29/08/14 |
| Exercise Price                | \$0.096  |
| Price at Effective Grant Date | \$0.07   |
| Expected Volatility           | 102.9%   |
| Expected Dividend Yield       | 0%       |
| Risk Free Interest Rate       | 4.80%    |

The model inputs for options granted during the year ended 30 June 2010 included:

| Model Input             | Class #1 | Class #2 | Class #3 | Class #4 |
|-------------------------|----------|----------|----------|----------|
| Grant Date              | 16/02/10 | 16/02/10 | 16/02/10 | 16/02/10 |
| Exercise Date           | 16/02/10 | 01/02/11 | 16/02/11 | 16/02/12 |
| Expiry Date             | 31/01/13 | 31/01/13 | 31/01/13 | 31/01/13 |
| Exercise Price          | \$0.053  | \$0.053  | \$0.056  | \$0.056  |
| Price at Grant Date     | \$0.04   | \$0.04   | \$0.04   | \$0.04   |
| Expected Volatility     | 100.4%   | 100.4%   | 100.4%   | 100.4%   |
| Expected Dividend Yield | 0%       | 0%       | 0%       | 0%       |
| Risk Free Interest Rate | 4.76%    | 4.76%    | 4.76%    | 4.76%    |

## REMUNERATION REPORT (Continued)

### Section 5: Equity-based compensation (continued)

Details of options exercised and lapsed during the year appear in the following table:

| 2011<br>Name                         | Balance<br>at the start<br>of the year<br>(Number) | Granted<br>during the<br>year as<br>compensation<br>(Number) | Exercised<br>during the<br>year<br>(Number) | Forfeited/<br>during the<br>year<br>(Number) | Lapsed<br>during the<br>year<br>(Number) | Balance<br>at the end<br>of the year<br>(Number) | Vested and<br>exercisable<br>at the<br>year end<br>(Number) |
|--------------------------------------|----------------------------------------------------|--------------------------------------------------------------|---------------------------------------------|----------------------------------------------|------------------------------------------|--------------------------------------------------|-------------------------------------------------------------|
| <i>Directors</i>                     |                                                    |                                                              |                                             |                                              |                                          |                                                  |                                                             |
| Mr A Giles                           | 13,800,001                                         | -                                                            | -                                           | -                                            |                                          | 13,800,001                                       | 13,800,001                                                  |
| Mr A Barlow                          | 11,900,001                                         | -                                                            | -                                           | -                                            | (2,000,000)                              | 9,900,001                                        | 9,900,001                                                   |
| Mr D Burden                          | 13,000,000                                         | -                                                            | -                                           | -                                            |                                          | 13,000,000                                       | 13,000,000                                                  |
| Mr A Vanzyl                          | 9,000,001                                          | -                                                            | -                                           | -                                            |                                          | 9,000,001                                        | 9,000,001                                                   |
| Mr A Du Preez                        | 8,500,000                                          | -                                                            | -                                           | -                                            |                                          | 8,500,000                                        | 8,500,000                                                   |
| Mr C Morris                          | -                                                  | -                                                            | -                                           | -                                            |                                          | -                                                | -                                                           |
| Ms T Fuller                          | -                                                  | -                                                            | -                                           | -                                            |                                          | -                                                | -                                                           |
| Other key<br>management<br>personnel |                                                    |                                                              |                                             |                                              |                                          |                                                  |                                                             |
| Mr D Element                         | 4,700,000                                          | -                                                            | (800,000) <sup>1</sup>                      | -                                            | (400,000)                                | 3,500,000                                        | 3,500,000                                                   |
| Mr M Chamley                         | 4,000,000                                          | -                                                            | -                                           | -                                            | -                                        | 4,000,000                                        | 2,000,000                                                   |
| Mr G Flower                          | -                                                  | 3,000,000                                                    | -                                           | (2,690,411) <sup>2</sup>                     | -                                        | 309,589                                          | 309,589                                                     |
| Mr B Maher                           | -                                                  | -                                                            | -                                           | -                                            | -                                        | -                                                | -                                                           |
| <b>Totals</b>                        | <b>64,900,003</b>                                  | <b>3,000,000</b>                                             | <b>(800,000)</b>                            | <b>(2,690,411)</b>                           | <b>(2,400,000)</b>                       | <b>62,009,592</b>                                | <b>60,009,592</b>                                           |

<sup>1</sup> The fair value of options exercised during the period was \$48,000.

<sup>2</sup> The fair value of options forfeited during the year was \$295,138

This marks the end of the audited remuneration report.

This report is made in accordance with a resolution of directors.



Adrian Giles  
Chairman

29 August 2011

The Board of Directors  
Webfirm Group Limited  
85 Coventry Street  
SOUTH MELBOURNE VIC 3205

**DECLARATION OF INDEPENDENCE BY MICHAEL CLIMPSON TO THE DIRECTORS OF WEBFIRM GROUP LIMITED**

As lead auditor of Webfirm Group Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Webfirm Group Limited and the entities it controlled during the year.



**Michael Climpson**  
Director

**BDO Audit (NSW-VIC) Pty Ltd**

Melbourne, Victoria

Dated this 29<sup>th</sup> day of August 2011

## Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

|                                                                                                                                 | Notes | 2011<br>\$            | 2010<br>\$            |
|---------------------------------------------------------------------------------------------------------------------------------|-------|-----------------------|-----------------------|
| Total revenue from continuing operations                                                                                        | 3     | 5,348,965             | 5,461,139             |
| Other income                                                                                                                    | 3     | 75,781                | 110,664               |
| Website publishers & related costs                                                                                              |       | (1,318,599)           | (486,969)             |
| Depreciation and amortisation expenses                                                                                          | 4     | (2,182,718)           | (652,165)             |
| Finance costs                                                                                                                   | 4     | (44)                  | (1,778)               |
| Salaries and employment related costs (including contractors)                                                                   |       | (5,480,766)           | (5,365,034)           |
| Telephone and internet                                                                                                          |       | (175,268)             | (183,297)             |
| Share based payment expense                                                                                                     |       | (822,835)             | (932,809)             |
| Marketing costs                                                                                                                 |       | (125,567)             | (127,299)             |
| Lease – rental premises                                                                                                         | 4     | (584,281)             | (308,706)             |
| Impairment of intangibles                                                                                                       | 4     | (2,749,184)           | (165,025)             |
| Impairment of receivables                                                                                                       | 4     | (340,717)             | (325,410)             |
| Listing & registrar fees                                                                                                        |       | (222,805)             | (184,038)             |
| Legal fees                                                                                                                      |       | (255,765)             | (320,272)             |
| Travel expenses                                                                                                                 |       | (404,052)             | (207,803)             |
| Audit and accountancy fees                                                                                                      |       | (127,912)             | (153,431)             |
| Other expenses                                                                                                                  |       | (975,542)             | (375,848)             |
| <b>Loss before income tax expense</b>                                                                                           |       | <b>(10,341,309)</b>   | <b>(4,218,081)</b>    |
| Income tax expense                                                                                                              | 5     | (520)                 | (520)                 |
| <b>Loss after income tax expense</b>                                                                                            |       | <b>(10,341,829)</b>   | <b>(4,218,601)</b>    |
| <b>Other comprehensive income</b>                                                                                               |       |                       |                       |
| Foreign exchange translation                                                                                                    |       | (44)                  | (6,882)               |
| Revaluation of available for sale investments                                                                                   |       | 106,335               | -                     |
| <b>Total other comprehensive income</b>                                                                                         |       | <b>106,291</b>        | <b>(6,882)</b>        |
| <b>Total comprehensive income attributable to the members of Webfirm Group Limited</b>                                          |       | <b>(10,235,538)</b>   | <b>(4,225,483)</b>    |
|                                                                                                                                 |       | <b>2011<br/>Cents</b> | <b>2010<br/>Cents</b> |
| <b>Earnings per share (EPS) from loss from continuing operations attributable to the ordinary equity holders of the company</b> |       |                       |                       |
| Basic earnings per share                                                                                                        | 17    | (1.66)                | (1.42)                |
| Diluted earnings per share                                                                                                      | 17    | (1.66)                | (1.42)                |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

## Consolidated Statement of Financial Position

As at 30 June 2011

|                                |       | 2011              | 2010              |
|--------------------------------|-------|-------------------|-------------------|
|                                | Notes | \$                | \$                |
| <b>CURRENT ASSETS</b>          |       |                   |                   |
| Cash and cash equivalents      | 7     | 18,352,609        | 3,807,779         |
| Trade and other receivables    | 8     | 1,391,435         | 1,739,976         |
| Total current assets           |       | 19,744,044        | 5,547,755         |
| <b>NON-CURRENT ASSETS</b>      |       |                   |                   |
| Trade and other receivables    | 8     | 200,000           | 200,000           |
| Property, plant & equipment    | 9     | 197,039           | 129,133           |
| Other financial assets         | 10    | 212,664           | -                 |
| Intangible assets              | 11    | 10,486,968        | 8,409,435         |
| Total non-current assets       |       | 11,096,671        | 8,738,568         |
| Total assets                   |       | 30,840,715        | 14,286,323        |
| <b>CURRENT LIABILITIES</b>     |       |                   |                   |
| Trade and other payables       | 12    | 1,470,270         | 1,146,296         |
| Other liabilities              | 13    | 1,110,587         | 1,175,912         |
| Provisions                     | 14    | 164,603           | 124,197           |
| Total current liabilities      |       | 2,745,460         | 2,446,405         |
| <b>NON-CURRENT LIABILITIES</b> |       |                   |                   |
| Provisions                     | 14    | 6,884             | 12,692            |
| Total non-current liabilities  |       | 6,884             | 12,692            |
| Total liabilities              |       | 2,752,344         | 2,459,097         |
| <b>NET ASSETS</b>              |       | <b>28,088,371</b> | <b>11,827,226</b> |
| <b>EQUITY</b>                  |       |                   |                   |
| Issued capital                 | 15    | 76,547,875        | 50,874,027        |
| Reserves                       | 16    | 5,830,556         | 4,901,430         |
| Accumulated losses             |       | (54,290,060)      | (43,948,231)      |
| <b>TOTAL EQUITY</b>            |       | <b>28,088,371</b> | <b>11,827,226</b> |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2011

### 2011

|                                                                             | Notes | Issued Capital<br>\$ | Reserves<br>\$   | Accumulated<br>Losses<br>\$ | Total Equity<br>\$ |
|-----------------------------------------------------------------------------|-------|----------------------|------------------|-----------------------------|--------------------|
| <b>Balance at 1 July 2010</b>                                               |       | 50,874,027           | 4,901,430        | (43,948,231)                | 11,827,226         |
| Movement in foreign exchange translation reserve                            | 16    | -                    | (44)             | -                           | (44)               |
| Increase in available for sale investment reserve                           | 16    | -                    | 106,335          | -                           | 106,335            |
| Other comprehensive income                                                  |       | -                    | 106,291          | -                           | 106,291            |
| Loss attributable to members of the company                                 |       | -                    | -                | (10,341,829)                | (10,341,829)       |
| <b>Total comprehensive income</b>                                           |       | -                    | <b>106,291</b>   | <b>(10,341,829)</b>         | <b>10,235,538</b>  |
| <b>Transactions with equity holders in their capacity as equity holders</b> |       |                      |                  |                             |                    |
| Contributions of equity, net of transaction costs                           | 15    | 25,673,848           | -                | -                           | 25,673,848         |
| Increase in employees share based payments reserve                          | 16    | -                    | 822,835          | -                           | 822,835            |
|                                                                             |       | 25,673,848           | 822,835          | -                           | 26,496,683         |
| <b>Balance 30 June 2011</b>                                                 |       | <b>76,547,875</b>    | <b>5,830,556</b> | <b>(54,290,060)</b>         | <b>28,088,371</b>  |

### 2010

|                                                                             | Notes | Issued Capital<br>\$ | Reserves<br>\$   | Accumulated<br>Losses<br>\$ | Total Equity<br>\$ |
|-----------------------------------------------------------------------------|-------|----------------------|------------------|-----------------------------|--------------------|
| <b>Balance at 1 July 2009</b>                                               |       | 37,358,173           | 3,975,503        | (39,729,630)                | 1,604,046          |
| Movement in foreign exchange translation reserve                            | 16    | -                    | (6,882)          | -                           | (6,882)            |
| Other comprehensive income                                                  |       | -                    | (6,882)          | -                           | (6,882)            |
| Loss attributable to members of the company                                 |       | -                    | -                | (4,218,601)                 | (4,218,601)        |
| <b>Total comprehensive income</b>                                           |       |                      | <b>(6,882)</b>   | <b>(4,218,601)</b>          | <b>(4,225,483)</b> |
| <b>Transactions with equity holders in their capacity as equity holders</b> |       |                      |                  |                             |                    |
| Contributions of equity, net of transaction costs                           | 15    | 13,515,854           | -                | -                           | 13,515,854         |
| Increase in employees share based payments reserve                          | 16    | -                    | 932,809          | -                           | 932,809            |
|                                                                             |       | 13,515,854           | 932,809          | -                           | 14,448,663         |
| <b>Balance 30 June 2010</b>                                                 |       | <b>50,874,027</b>    | <b>4,901,430</b> | <b>(43,948,231)</b>         | <b>11,827,226</b>  |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## Consolidated Statement of Cash Flows

For the year ended 30 June 2011

|                                                                               | Notes | 2011<br>\$        | 2010<br>\$       |
|-------------------------------------------------------------------------------|-------|-------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                   |       |                   |                  |
| Receipts from trade and other debtors (inclusive of GST)                      |       | 4,628,338         | 6,351,083        |
| Interest received                                                             |       | 903,194           | 119,996          |
| Government grants and other receipts                                          |       | 75,781            | 110,664          |
| Payments to trade creditors, other creditors and employees (inclusive of GST) |       | (9,599,365)       | (10,918,694)     |
| Interest paid                                                                 |       | (44)              | (1,778)          |
| Net cash outflows from operating activities                                   | 25    | (3,992,096)       | (4,338,729)      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                   |       |                   |                  |
| Payments for property, plant and equipment                                    |       | (293,429)         | (54,313)         |
| Proceeds from sale of fixed assets                                            |       | 42,903            | -                |
| Net cash acquired via acquisition of subsidiary                               | 19    | 108,344           | 146,150          |
| Payments for intangible assets                                                |       | (776,865)         | (224,959)        |
| Payments for available-for-sale financial assets                              |       | (106,329)         | -                |
| Net cash outflows from investing activities                                   |       | (1,025,399)       | (133,122)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                   |       |                   |                  |
| Proceeds from issue of shares                                                 |       | 20,122,497        | 7,515,854        |
| Payments for equity raising costs                                             |       | (510,233)         | -                |
| Net cash inflows from financing activities                                    |       | 19,612,264        | 7,515,854        |
| Net increase/(decrease) in cash held                                          |       | 14,594,769        | 3,044,003        |
| Cash at the beginning of the financial year                                   |       | 3,807,779         | 695,376          |
| Effects of exchange rate changes on cash                                      |       | (49,939)          | 68,400           |
| <b>CASH AT THE END OF THE FINANCIAL YEAR</b>                                  | 7     | <b>18,352,609</b> | <b>3,807,779</b> |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 1. Summary of Significant Accounting Policies

The financial report covers Webfirm Group Limited ("Company") and controlled entities ("Group"). Separate financial statements for Webfirm Group Limited as an individual entity are no longer presented as a consequence of a change to the *Corporations Act 2001*. However limited financial information for Webfirm Group Limited, as an individual entity is included in Note 27. Webfirm Group Limited is a listed public company, incorporated and domiciled in Australia. The financial report is for the financial year ended 30 June 2011 and is presented in Australian dollars.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

##### *Compliance with IFRS*

Australian Accounting Standards include International Financial Reporting Standards as adopted in Australia. Compliance with Australian Accounting Standards ensures that the financial statements and notes of Webfirm Group Limited comply with International Financial Reporting Standards (IFRS).

##### *Adoption of new and revised standards*

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions*
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues*
- AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19, and*
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project.*

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

##### *Historical cost convention*

These financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets. Under the historical cost convention assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

## **Notes to the Financial Statements (Continued)**

For the year ended 30 June 2011

### **1. Summary of Significant Accounting Policies (Continued)**

#### **(a) Basis of preparation (Continued)**

##### *Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates. The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### **(b) Going concern**

Management continue to invest resources into achieving a significant expansion of the business which includes successfully launching the Adslot division. The Group has however incurred net cash outflows from operations of \$4.0m for the year, and management anticipate incurring further net cash outflows from operations until such time as sufficient revenue growth is achieved.

Accordingly the ability of the Group to continue as a going concern is dependent upon revenue growth in the Adslot division. During 2011 Adslot earned revenues from its first three clients and has contracted with a fourth client from which revenues will commence flowing early in the next financial year. During FY 2012 the Group expects more clients to be signed up with Adslot however it is likely net operating cash flows from operation will be negative in FY 2012. However the directors believe the Group can continue to pay its debts as and when the fall due for the following reasons:

- The Group has a cash position as at 30 June 2011 of \$18.3m;
- Whilst the revenue from the Webfirm division is anticipated to be flat the division is expected to make a positive net cash flows from its operations on existing revenue levels in FY 2012; and
- Management could reduce the level of resources dedicated to expanding the business if so required.

Accordingly the directors believe there exists a reasonable expectation that the Group can continue to pay its debts as and when they fall due, and the financial report has been prepared on a going concern basis.

#### **(c) Principles of consolidation**

##### *Subsidiaries*

The consolidated financial statements comprise those of the Company, and the entities it controlled at the end of, or during, the financial year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All intra-group transactions, balances, income and expenses between entities in the Group included in the financial statements have been eliminated in full. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased. The accounting policies adopted in preparing the financial statements have been consistently applied by entities in the Group.

Investments in subsidiaries are accounted for at cost less impairment losses in the parent entity information in Note 27.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 1. Summary of Significant Accounting Policies (Continued)

#### (c) Principles of consolidation

##### *Business combinations*

Acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

##### *Foreign Currency Exchange*

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance date.

Exchange differences are recognised in profit or loss in the period in which they arise.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve.

#### (d) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash includes deposits at call which are readily convertible to cash and are not subject to significant risk of changes in value, net of bank overdrafts.

#### (e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Leasehold improvements are depreciated over the estimated useful life using the straight-line method with any balance written off at termination of lease.

Depreciation is calculated on a straight line basis for all plant and equipment. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of asset and is recognised in profit or loss.

The following depreciation rates are used for each class of depreciable asset:

|                        |                    |
|------------------------|--------------------|
| Computer Equipment     | 20 – 40% per annum |
| Plant & Equipment      | 20 – 25% per annum |
| Leasehold Improvements | 20% per annum      |

## **Notes to the Financial Statements (Continued)**

For the year ended 30 June 2011

### **1. Summary of Significant Accounting Policies (Continued)**

#### **(f) Receivables**

Trade receivables are recognised initially at fair value and thereafter are measured at amortised cost, less provision for impairment. They are non-derivative financial assets with fixed or determinable amounts not quoted in an active market. Trade accounts receivable are generally settled between 14 and 60 days and carried at amounts recoverable.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in profit or loss. Subsequent recoveries of amounts previously written off are credited against the allowance account.

#### **(g) Investments and other financial assets**

Financial assets are recognised when the group entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets are subsequently carried at fair value. Gains or losses arising from changes in available-for-sale financial assets are presented in other comprehensive income in the period in which they arise.

#### **(h) Trade and other creditors**

Trade accounts payable and other creditors represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

#### **(i) Borrowings**

Borrowings are initially recognised at fair value (less transaction costs) and subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the consolidated statement of comprehensive income over the period of the borrowing using the effective interest method.

#### **(j) Finance costs**

Finance costs are recognised as expenses in the period in which they are incurred except where they are incurred in the construction of a qualifying asset in which case the finance costs are capitalised as part of the asset.

## **Notes to the Financial Statements (Continued)**

For the year ended 30 June 2011

### **1. Summary of Significant Accounting Policies (Continued)**

#### **(k) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

#### *Tax consolidation legislation*

Webfirm Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The head entity, Webfirm Group Limited, and the controlled entities in the tax consolidated group account for their own current and tax deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Webfirm Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 1. Summary of Significant Accounting Policies (Continued)

#### (I) Employee benefits

##### *Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

##### *Long service leave*

Long service leave liability commences to be accrued for staff at four (4) year anniversary date. The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in provisions for employee entitlements and is measured at the amount expected to be paid when the liabilities are settled. The liability for long service leave expected to be settled more than 12 months from the reporting date, is recognised in the non-current provision for employee benefits and is measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

##### *Share-based compensation benefits*

Equity-settled share-based payments with employees and other providing similar services are measured at the fair value of the equity instrument at the grant date. The fair value at grant date is determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value determined at the grant date of the equity-settled share-based payments is recognised as an expense, with a corresponding increase in equity (share-based payments reserve) on a straight line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustments to equity-settled share-based payments reserve benefits reserve.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

## **Notes to the Financial Statements (Continued)**

For the year ended 30 June 2011

### **1. Summary of Significant Accounting Policies (Continued)**

#### **(m) Intangible Assets**

##### ***Goodwill***

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (acquisition date). Goodwill is measured as the excess of the fair value of consideration paid over the fair value of the identifiable net assets of the entity or operations acquired. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, being allocated to the cash flows of the relevant cash generating unit and is carried at cost less accumulated impairment losses. An impairment loss for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

##### ***Research & development expenditure***

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to compete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the assets to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project.

The carrying value of an intangible asset arising from development costs is tested for impairment annually when the asset is not yet available for use or more frequently when an indicator of impairment arises during the reporting period.

##### ***Intellectual property***

The intellectual property relates to the names, platform technology, branding and domains acquired as a result of the acquisition of Webfirm, Webfirm Search, Adslot, Adimise, Full Circle Online and QDC IP Technology businesses. Where the useful life is assessed as indefinite, assets are not amortised and the carrying value is tested for impairment annually or more frequently if events or changes in circumstances indicate impairment. It is carried at cost less impairment losses. For those assets assessed as having a finite life, they are amortised on a straight-line basis over the estimated useful life of the asset. The expected accounting useful life of intellectual property relating to the Adslot, Adimise and QDC IP Technology business is 5 years.

##### ***Domain name***

Acquired domain names are brought to account at cost, useful life is assessed as indefinite and the assets are not amortised. The carrying value is tested for impairment annually or more frequently if events or changes in circumstances indicate impairment. They are carried at cost less impairment losses.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 1. Summary of Significant Accounting Policies (Continued)

#### **Customer contracts**

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses.

A summary of the policies applied to the capitalisation of Group's software development and customer contracts is as follows:

|                                                   | <b>Software/Development Costs</b>                                                                      | <b>Customer Contracts</b>                                                                              |
|---------------------------------------------------|--------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| Useful lives                                      | Finite                                                                                                 | Finite                                                                                                 |
| Method used                                       | Maximum 5 years - Straight line                                                                        | Straight-line over the period of customer contracts                                                    |
| Internally generated/<br>Acquired                 | Internally generated                                                                                   | Acquired                                                                                               |
| Impairment test/<br>Recoverable<br>amount testing | Amortisation method reviewed at each financial year-end; Reviewed annually for indicator of impairment | Amortisation method reviewed at each financial year-end; Reviewed annually for indicator of impairment |

#### **(n) Leased assets**

Leases of assets under which the Group assumes substantially all the risks and benefits of ownership are classified as finance leases as distinct from operating leases under which the lessor effectively retains substantially all such risks and benefits. Property, plant and equipment acquired by finance leases is capitalised at the present value of the minimum lease payments as a finance lease asset and as a corresponding lease liability from date of inception of the lease. Lease assets are amortised over the period the entity is expected to benefit from the use of the assets or the term of the lease, whichever is shorter. Finance lease liabilities are reduced by the component of principal repaid. Lease payments are allocated between the principal component of the liability and interest expense.

Operating lease payments are charged to profit or loss on a straight-line basis over the period of lease term.

#### **(o) Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- Where the amount of GST incurred is not recoverable from taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

## **Notes to the Financial Statements (Continued)**

For the year ended 30 June 2011

### **1. Summary of Significant Accounting Policies (Continued)**

#### **(p) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, allowances and duties and taxes paid.

Revenue is recognised for the major business activities as follows:

##### ***Rendering of services***

Service revenue is recognised on an accruals basis as and when the service has been passed onto the customer.

Website development revenue is recorded based on a twelve (12) week program of project delivery. Any projects not completed within this period are deemed to be twenty percent (20%) incomplete. Website hosting, search engine renewal and domain name registration revenue is recorded over a one year duration. Prepaid revenue calculated in this regard is excluded from revenue and is being treated as unearned revenue in the Consolidated Statement of Financial Position.

##### ***Interest revenue***

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount can be measured reliably, taking into account the effective yield on the financial asset.

##### ***Government grants***

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income and are amortised on a straight line basis over the expected lives of the assets.

##### ***Sale of non-current assets***

The net gain from the sale of non-current asset sales is recognised in income at the date control of the asset passes to the buyer, usually when the signed contract of sale becomes unconditional.

#### **(q) Acquisition of assets**

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition. Acquisition-related costs are expensed as incurred. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the date of acquisition, unless the notional price at which they could be placed in the market is a better indicator of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Any deferred settlement of cash consideration is discounted to its present value as at the date of acquisition. The discount rate used is the incremental borrowing rate that the Group can obtain from an independent financier under comparable terms and conditions.

## **Notes to the Financial Statements (Continued)**

For the year ended 30 June 2011

### **1. Summary of Significant Accounting Policies (Continued)**

#### **(r) Leasehold improvements**

The cost of improvements to leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter.

#### **(s) Earnings per share**

##### *Basic earnings per share*

Basic earnings per share for continuing operations and total operations attributable to members of the Company are determined by dividing net profit after income tax from continuing operations and the net profit attributable to members of the Company respectively, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period. The number of shares used in the calculation at any time during the period is based on the physical number of shares issued.

##### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

#### **(t) Dividends**

Provision is made for the amount of any dividend determined or recommended by the directors on or before the end of the financial year but not distributed at balance date.

#### **(u) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **(v) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Chief Executive Officer.

## **Notes to the Financial Statements (Continued)**

For the year ended 30 June 2011

### **1. Summary of Significant Accounting Policies (Continued)**

#### **(w) Critical accounting judgements and key sources of estimation uncertainty**

##### ***Critical judgements in applying the entity's accounting policies***

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

##### ***Revenue recognition***

In web development and web hosting business operations, management assesses stage of completion of each project and recognises revenue in the period in which development work is undertaken. In making its judgement, management considered the standard duration of such contracts, stage of progress in contracts and commencement date of such contracts. Accordingly, management has deferred recognising some web development and web hosting revenue of an estimated value of services to be rendered in the future.

##### ***Key sources of estimation uncertainty***

The following are the key assumptions concerning the future and other key estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

##### ***Impairment of goodwill and intangible assets***

Determining whether goodwill and intangible assets are impaired required an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

The carrying amount of goodwill and intangible assets at the balance sheet date was \$10,486,968 (2010: \$8,409,435) after an impairment loss of \$ 2,749,184 (2010: \$165,025) was recognised during the current financial year. Refer to Note 11 for further details.

##### ***Share based payments***

The calculation of the fair value of options issued requires significant estimates to be made in regards to several variables such as volatility, dividend policy and the probability of options reaching their vesting period. The estimations made are subject to variability that may alter the overall fair value determined. The share based payment expenses for the year was \$822,835 (2010: \$932,809).

##### ***Contingent consideration – QDC Technologies***

As detailed in Note 19, within the acquisition agreement for QDC Technologies Pty Ltd, the Group agreed to pay further consideration contingent on the share price of the Group at a specified future date. On initial recognition the Group estimated the value of contingent consideration to be \$106,800 on the basis that there was a 20% probability that the share price would be at a level that would require further consideration under the terms of the agreement. At reporting date, this estimate has been revised to \$354,776 as the Group believes that there is now a 50% probability that further consideration will be paid. This balance has been recognised in other liabilities with movements in being recorded in other expenses in the statement of comprehensive income.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 1. Summary of Significant Accounting Policies (Continued)

#### (x) New standards and interpretations issued but not effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods, and have not yet been adopted by the Group. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

- AASB 124 (revised December 2009) *Related Party Disclosures*, AASB 2009-12 *Amendments to Australian Accounting Standards* simplifies the definition of related parties, clarifying its intended meaning and eliminating inconsistencies from the definition. AASB 124 (revised December 2009) become mandatory for the Group's 30 June 2012 financial statements but is not expected to have any impact on the Group's financial statements.
- AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from the AASB 9* sets out requirements for the classification and measurement of financial assets. AASB 2008-6 will become mandatory for the Group's 30 June 2014 financial statements. The Group will apply this revised AASB 2009-11 from 30 June 2014 but it is not expected to have any impact on the Group's financial statements.
- AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* makes amendments to Interpretation 14 AASB 119 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. AASB 2009-14 will become mandatory for the Group's 30 June 2012 financial statements. The Group will apply this revised AASB 101 from 30 June 2012 but it is not expected to have any impact on the Group's financial statements.
- AASB 2010-6 *Amendment to Australian Accounting Standards – Disclosures in Transfers of Financial Assets* adds and amends disclosure requirements about transfers of financial assets, including in respect of the nature of the financial assets involved and the risks associated with them. AASB 2010-6 will become mandatory for the Group's 30 June 2012 financial statements. The Group will apply this revised AASB 2010-6 from 30 June 2012 but it is not expected to have any impact on the Group's financial statements.
- AASB 2010-8 *Amendment to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in AASB 140 *Investment Property*. AASB 2010-8 will become mandatory for the Group's 30 June 2013 financial statements. The Group will apply this revised AASB 2010-8 from 30 June 2013 but it is not expected to have any impact on the Group's financial statements.
- AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective from 1 July 2013). On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Webfirm Group Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 2. Segment Information

| <b>2011</b>                               |               |                |              |
|-------------------------------------------|---------------|----------------|--------------|
| <b>Business segments</b>                  | <b>Adslot</b> | <b>Webfirm</b> | <b>Total</b> |
| External sales                            | 932,190       | 3,513,581      | 4,445,771    |
| Segment result from continuing operations | (5,387,331)   | (2,119,806)    | (7,507,137)  |
| Depreciation (note 9)                     | 13,171        | 89,971         | 103,142      |
| Amortisation (note 11)                    | 1,972,303     | 55,984         | 2,028,287    |
| Additions to non-current assets (PP&E)    | 47,346        | 13,623         | 60,969       |
| Impairment of intangibles                 | 249,184       | 2,500,000      | 2,749,184    |
| <b>Statement of Financial Position</b>    |               |                |              |
| Segment assets                            | 17,205,397    | 2,018,314      | 19,223,711   |
| Segment liabilities                       | (13,724,604)  | (1,262,881)    | (14,987,485) |

| <b>2010</b>                               |               |                |              |
|-------------------------------------------|---------------|----------------|--------------|
| <b>Business segments</b>                  | <b>Adslot</b> | <b>Webfirm</b> | <b>Total</b> |
| External sales                            | -             | 5,341,143      | 5,341,143    |
| Segment result from continuing operations | (943,814)     | (1,604,308)    | (2,548,122)  |
| Depreciation (note 9)                     | 181           | 91,766         | 91,947       |
| Amortisation (note 11)                    | 426,900       | 93,692         | 520,592      |
| Additions to non-current assets (PP&E)    | -             | 46,284         | 46,284       |
| Impairment of intangibles                 | -             | 165,025        | 165,025      |
| <b>Statement of Financial Position</b>    |               |                |              |
| Segment assets                            | 5,663,447     | 3,065,511      | 8,728,958    |
| Segment liabilities                       | (6,009,633)   | (1,996,803)    | (8,006,436)  |

Segment revenue reconciles to total revenue from continuing operations as follows:

| <b>Revenue</b>                                  | <b>2011</b>      | <b>2010</b>      |
|-------------------------------------------------|------------------|------------------|
|                                                 | <b>\$</b>        | <b>\$</b>        |
| Total segment revenue                           | 4,445,771        | 5,341,143        |
| Interest revenue                                | 903,194          | 119,996          |
| <b>Total revenue from continuing operations</b> | <b>5,348,965</b> | <b>5,461,139</b> |

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 2. Segment Information (Continued)

A reconciliation from segment result to operating profit before income tax is provided as follows:

| <b>Segment Result</b>                                                           | <b>2011</b>         | <b>2010</b>        |
|---------------------------------------------------------------------------------|---------------------|--------------------|
|                                                                                 | <b>\$</b>           | <b>\$</b>          |
| Total segment result                                                            | (7,507,137)         | (2,548,122)        |
| Interest revenue                                                                | 903,194             | 119,996            |
| Other income                                                                    | 75,781              | 110,664            |
| Head office, share option and depreciation expenses allocated in segment result | 1,243,777           | 1,027,685          |
| Depreciation of corporate assets                                                | (51,289)            | (39,626)           |
| Interest expenses                                                               | (44)                | (1,778)            |
| Impairment of intangibles                                                       | (2,749,184)         | -                  |
| Deferred vendor consideration                                                   | (247,976)           | -                  |
| Share option expenses                                                           | (822,835)           | (932,809)          |
| Other head office expenses                                                      | (1,185,596)         | (1,954,091)        |
| <b>Loss before income tax from continuing operations</b>                        | <b>(10,341,309)</b> | <b>(4,218,081)</b> |

Reportable segment assets are reconciled to total assets as follows:

| <b>Segment assets</b>                                          | <b>2011</b>       | <b>2010</b>       |
|----------------------------------------------------------------|-------------------|-------------------|
|                                                                | <b>\$</b>         | <b>\$</b>         |
| Total segment assets                                           | 19,223,710        | 8,728,958         |
| Head office assets                                             | 31,401,109        | 11,656,003        |
| Intersegment eliminations                                      | (19,784,103)      | (6,098,638)       |
| <b>Total assets as per the statement of financial position</b> | <b>30,840,716</b> | <b>14,286,323</b> |

Reportable segment liabilities are reconciled to total liabilities as follows:

| <b>Segment liabilities</b>                                          | <b>2011</b>        | <b>2010</b>        |
|---------------------------------------------------------------------|--------------------|--------------------|
|                                                                     | <b>\$</b>          | <b>\$</b>          |
| Total segment liabilities                                           | (14,987,485)       | (8,006,436)        |
| Head office liabilities                                             | (628,262)          | (452,661)          |
| Intersegment eliminations                                           | 12,863,403         | 6,000,000          |
| <b>Total liabilities as per the statement of financial position</b> | <b>(2,752,344)</b> | <b>(2,459,097)</b> |

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 2. Segment Information (Continued)

#### Notes to and forming part of the segment information

##### Business segments

The Group is organised into the following segments by product and service type:

##### *Adslot*

The Adslot business builds and operates large scale 'private electronic marketplaces' for media publishers to sell premium advertising inventory to advertisers and advertising agencies. It uses proprietary mathematical algorithms to maximise yield and relies on a unique patented set of technologies.

##### *Webfirm*

Designing and developing websites, maintenance of the sites, and promoting the websites. Driving on-line users to websites through provision of contextually mapped search advertising and by having its customers found on search engines.

##### Accounting policies

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. The only exception is the Adslot segment which has brought to account assets for the fair value of intellectual property acquired through business combinations (as determined for consolidation purposes) and corresponding liabilities. These assets would ordinarily only be recognised on consolidation. Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment profit represents the profit earned by each segment without investment revenue, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, capitalised R&D and other intangible assets, net of related provisions but do not include non-current inter-entity assets and liabilities which are considered quasi-equity in substance. Segment liabilities consist primarily of trade and other creditors, employee benefits and sundry provisions and accruals. Segment assets and liabilities do not include income taxes.

##### Inter-segment transfers

There are no transfers of revenues, expenses and results between segments.

##### Geographical information

Revenues from external customers are attributed to individual countries based on the invoiced address for the services.

|                                          | Revenue from<br>external customers |           | Non-current<br>assets |           |
|------------------------------------------|------------------------------------|-----------|-----------------------|-----------|
|                                          | 2011                               | 2010      | 2011                  | 2010      |
|                                          | \$                                 | \$        | \$                    | \$        |
| <b>Continuing Operations</b>             |                                    |           |                       |           |
| Australia and New Zealand                | 4,176,204                          | 4,400,073 | 13,643,739            | 8,538,568 |
| North America                            | 269,567                            | 941,070   | -                     | -         |
| Europe                                   | -                                  | -         | 2,116                 | -         |
| Total revenue from continuing operations | 4,445,771                          | 5,341,143 | 13,645,855            | 8,538,568 |

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

|                                                                         | 2011             | 2010             |
|-------------------------------------------------------------------------|------------------|------------------|
|                                                                         | \$               | \$               |
| <b>3. Revenue and Other Income</b>                                      |                  |                  |
| <b>Revenue</b>                                                          |                  |                  |
| Revenue for services rendered                                           | 4,445,771        | 5,341,143        |
| Interest income                                                         | 903,194          | 119,996          |
| Total revenue                                                           | 5,348,965        | 5,461,139        |
| <b>Other income</b>                                                     |                  |                  |
| R&D tax offset grant                                                    | 26,400           | -                |
| Export marketing development grant                                      | 49,381           | 106,032          |
| Sundry income                                                           | -                | 4,632            |
|                                                                         | 75,781           | 110,664          |
| <b>Total revenue and other income</b>                                   | <b>5,424,746</b> | <b>5,571,803</b> |
| <b>4. Expenses</b>                                                      |                  |                  |
| <b>Loss before income tax includes the following specific expenses:</b> |                  |                  |
| <b>Depreciation and amortisation</b>                                    |                  |                  |
| Amortisation – Leasehold improvements                                   | 53,689           | 14,063           |
| Amortisation – Software development costs                               | 2,028,287        | 520,592          |
| Depreciation – Plant & Equipment                                        | 100,742          | 117,510          |
| Total depreciation and amortisation                                     | 2,182,718        | 652,165          |
| <b>Finance costs</b>                                                    |                  |                  |
| Interest paid/payable to unrelated entities                             | 44               | 1,778            |
| <b>Other charges against assets</b>                                     |                  |                  |
| Impairment of intangibles                                               | 2,749,184        | 165,025          |
| Impairment of trade receivables                                         | 340,717          | 325,410          |
| Rental expense – operating leases                                       | 584,281          | 308,706          |
| Defined contribution superannuation expense                             | 321,782          | 360,591          |
| Loss on sale of PP&E & internally developed software                    | 42,903           | 26,355           |
| Deferred vendor consideration                                           | 247,976          | -                |
| Foreign currency loss/(gain)                                            | 49,895           | (75,283)         |

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

|                                                                                                                                                        | 2011         | 2010        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------|
|                                                                                                                                                        | \$           | \$          |
| <b>5 Income Tax Expense</b>                                                                                                                            |              |             |
| <b>(a) Numerical reconciliation of income tax expense to prima facie tax benefit</b>                                                                   |              |             |
| Loss before income tax                                                                                                                                 | (10,341,309) | (4,218,081) |
| Prima facie tax benefit on loss before income tax at 30% (2010: 30%)                                                                                   | (3,102,393)  | (1,265,424) |
| Tax effect of:                                                                                                                                         |              |             |
| Other non-allowable items                                                                                                                              | 930,429      | 212,120     |
| Share options expensed during year                                                                                                                     | 246,851      | 279,843     |
| Income tax benefit attributable to entity                                                                                                              | (1,926,113)  | (773,461)   |
| Deferred tax assets relating to tax losses not recognised                                                                                              | 1,926,633    | 773,981     |
| Income tax expense attributable to entity                                                                                                              | 520          | 520         |
| <b>(b) Deferred Tax Assets Not Brought to Account</b>                                                                                                  |              |             |
| Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out on Note 1(k) occur |              |             |
| Temporary differences                                                                                                                                  | 1,488,369    | (983,028)   |
| Tax Losses:                                                                                                                                            |              |             |
| Operating losses                                                                                                                                       | 15,163,471   | 10,380,494  |
| Capital losses                                                                                                                                         | 131,879      | 131,879     |
| Potential tax benefit (30%)                                                                                                                            | 5,035,116    | 2,858,803   |

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group and are therefore taxed as a single entity. The head entity within the tax-consolidated group is Webfirm Group Limited.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 6. Dividends

No dividends were declared in the current year or prior year by the Company.

There are no franking credits available to shareholders of the Company.

|                                     | 2011       | 2010      |
|-------------------------------------|------------|-----------|
|                                     | \$         | \$        |
| <b>7. Cash and cash equivalents</b> |            |           |
| Cash at bank and on hand            | 18,352,609 | 3,807,779 |

### 8. Trade and other receivables

#### Current:

|                                                    |                  |                  |
|----------------------------------------------------|------------------|------------------|
| Trade debtors                                      | 1,717,234        | 2,452,338        |
| Less provision for impairment                      | (523,190)        | (842,970)        |
|                                                    | <b>1,194,044</b> | <b>1,609,368</b> |
| Other receivables                                  | 59,977           | 61,027           |
| Prepayments                                        | 121,375          | 67,498           |
| Earn-out receivable from the sale of Adfeed Engine | 16,039           | -                |
| Employee loans                                     | -                | 2,083            |
|                                                    | <b>1,391,435</b> | <b>1,739,976</b> |

#### Impairment of trade receivables

The Webfirm segment invoices the customer on the full sales values at sale date with collection terms being related to various contract completion stages of website development and annual hosting services. A particular debt exceeding 90 days does not necessarily mean delinquent debt as the contract may still be at work in progress stage with corresponding debtor balance not due for collection or debtor accounts being paid via monthly direct debit receipts.

Before accepting any new customers, the Group internally reviews the potential customer's credit quality. A substantial deposit on contract in website development and hosting segment of the Group mitigates initial credit risk.

Included in the Group's trade receivable balances are debtors with a carrying amount of \$687,173 (2010: \$1,206,818) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 40 days (2010: 56 days).

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 8. Trade and other receivables (Continued)

#### (a) Ageing of past due but not impaired

|              | 2011           | 2010             |
|--------------|----------------|------------------|
|              | \$             | \$               |
| 0 – 30 days  | 290,172        | 231,639          |
| 30 – 60 days | 121,833        | 157,029          |
| 61 – 90 days | 54,545         | 75,809           |
| Over 91 days | 220,623        | 742,341          |
|              | <b>687,173</b> | <b>1,206,818</b> |

#### (b) Movement in the provision for impairment

|                                       |                |                |
|---------------------------------------|----------------|----------------|
| Balance at beginning of the year      | 842,970        | 507,356        |
| Impairment recognised during the year | 469,292        | 423,709        |
| Amounts written off as uncollectible  | (752,287)      | (81,986)       |
| Amounts recovered during the year     | (36,785)       | (6,109)        |
| Balance at the end of the year        | <b>523,190</b> | <b>842,970</b> |

In determining the recoverability of a trade receivable, the Group considers any recent history of payments and the status of the projects to which the debt relates to. No payment terms have been renegotiated. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

#### Fair value of receivables

Fair value of receivables at year end is measured to be the same as receivables net of provision for impairment.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

|                                                   | 2011           | 2010           |
|---------------------------------------------------|----------------|----------------|
|                                                   | \$             | \$             |
| <b>8. Trade and other receivables (Continued)</b> |                |                |
| <b>Non-current:</b>                               |                |                |
| Employee loans                                    | 200,000        | 200,000        |
| Receivables – Optum ES Pty Ltd (i)                | -              | 1,363,343      |
| Less provision for impairment                     | -              | (1,363,343)    |
|                                                   | <b>200,000</b> | <b>200,000</b> |

### Movement in the provision for impairment: non-current receivables

|                                      |             |           |
|--------------------------------------|-------------|-----------|
| Balance at beginning of the year     | 1,363,343   | 2,163,343 |
| Amounts written off as uncollectible | (1,363,343) | (800,000) |
| Balance at the end of the year       | -           | 1,363,343 |

- (i) This represents an amount which was the outstanding balance on the intercompany loan from Webfirm Group Limited to Optus E S Pty Ltd at the date of deconsolidation. The balance has also been fully provided for in prior years. This receivable balance and corresponding provision was written off during this year.

The recoverability of loans to controlled entities is determined with reference to the net assets of each controlled entity.

Non-current receivables generally arise from transactions outside the usual operating activities of the Group. No interest is chargeable and collateral is generally not obtained.

## 9. Non-Current Assets – Property, plant and equipment

|                                                        |                |                |
|--------------------------------------------------------|----------------|----------------|
| Leasehold improvements – at cost                       | 96,740         | 44,460         |
| Less: Accumulated amortisation                         | (64,036)       | (10,346)       |
|                                                        | <b>32,704</b>  | <b>34,114</b>  |
| Plant and equipment – at cost                          | 248,593        | 164,685        |
| Less: Accumulated depreciation                         | (159,386)      | (113,675)      |
|                                                        | <b>89,207</b>  | <b>51,010</b>  |
| Computer equipment – at cost                           | 358,994        | 269,996        |
| Less: Accumulated depreciation                         | (283,866)      | (225,987)      |
|                                                        | <b>75,128</b>  | <b>44,009</b>  |
| Total carrying amount of property, plant and equipment | <b>197,039</b> | <b>129,133</b> |

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 9. Non-Current Assets – Property, plant and equipment (Continued)

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

#### 2011

|                                   | Leasehold<br>Improvements | Plant and<br>Equipment | Computer<br>Equipment | Total     |
|-----------------------------------|---------------------------|------------------------|-----------------------|-----------|
|                                   | \$                        | \$                     | \$                    | \$        |
| Carrying amount at 1 July 2010    | 34,114                    | 51,010                 | 44,009                | 129,133   |
| Additions                         | 52,279                    | 83,909                 | 86,149                | 222,337   |
| Depreciation/amortisation expense | (53,689)                  | (45,712)               | (55,030)              | (154,431) |
| Carrying amount at 30 June 2011   | 32,704                    | 89,207                 | 75,128                | 197,039   |

#### 2010

|                                   | Leasehold<br>Improvements | Plant and<br>Equipment | Computer<br>Equipment | Total     |
|-----------------------------------|---------------------------|------------------------|-----------------------|-----------|
|                                   | \$                        | \$                     | \$                    | \$        |
| Carrying amount at 1 July 2009    | 63,154                    | 84,943                 | 83,865                | 231,962   |
| Additions                         | 9,822                     | 4,385                  | 40,892                | 55,099    |
| Disposals/write offs              | (24,799)                  | (478)                  | (1,078)               | (26,355)  |
| Depreciation/amortisation expense | (14,063)                  | (37,840)               | (79,670)              | (131,573) |
| Carrying amount at 30 June 2010   | 34,114                    | 51,010                 | 44,009                | 129,133   |

|      |      |
|------|------|
| 2011 | 2010 |
| \$   | \$   |

### 10. Non-Current Assets – Other financial assets

#### Available for sale investment carried at fair value

|                            |         |   |
|----------------------------|---------|---|
| Investment – at fair value | 212,664 | - |
|----------------------------|---------|---|

During the year the Company was issued a convertible note for \$100,000 in Brandscreen Pty Ltd (an unrelated entity). This convertible note and accumulated interest of \$6,329 was converted to 145,094 preference shares on 11 March 2011. At that time the investment in Brandscreen Pty Ltd was re-valued at fair value reflecting a capital raising which it undertook recognising a gain of \$106,335. The Directors are of the opinion that the fair value of the Brandscreen Pty Ltd preference shares has not materially changed at 30 June 2011.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 11. Non-Current Assets – Intangible Assets

|                                 | Intellectual<br>Property<br>\$ | Domain<br>Name<br>\$ | Goodwill<br>\$ | Internally<br>developed<br>Software<br>\$ | Customer<br>Contracts<br>\$ | Total<br>\$ |
|---------------------------------|--------------------------------|----------------------|----------------|-------------------------------------------|-----------------------------|-------------|
| <b>Year ended 30 June 2011</b>  |                                |                      |                |                                           |                             |             |
| Opening net book amount         | 5,537,106                      | 30,805               | 2,500,000      | 341,524                                   | -                           | 8,409,435   |
| Acquisitions                    | 6,737,572                      | 7,462                | 249,184        | -                                         | -                           | 6,994,218   |
| Amortisation                    | (1,972,303)                    | -                    | -              | (55,984)                                  | -                           | (2,028,287) |
| Impairment of assets            | -                              | -                    | (2,749,184)    | -                                         | -                           | (2,749,184) |
| Disposal of assets              | -                              | -                    | -              | (139,214)                                 | -                           | (139,214)   |
| Carrying amount at 30 June 2011 | 10,302,375                     | 38,267               | -              | 146,326                                   | -                           | 10,486,968  |

#### At 30 June 2011

|                                     |             |           |             |          |   |              |
|-------------------------------------|-------------|-----------|-------------|----------|---|--------------|
| Cost                                | 16,566,906  | 288,267   | 5,381,652   | 234,154  | - | 22,470,979   |
| Accumulated amortisation/impairment | (6,264,531) | (250,000) | (5,381,652) | (87,828) | - | (11,984,011) |
| Carrying amount at 30 June 2011     | 10,302,375  | 38,267    | -           | 146,326  | - | 10,486,968   |

|                                 | Intellectual<br>Property<br>\$ | Domain<br>Name<br>\$ | Goodwill<br>\$ | Internally<br>developed<br>Software<br>\$ | Customer<br>Contracts<br>\$ | Total<br>\$ |
|---------------------------------|--------------------------------|----------------------|----------------|-------------------------------------------|-----------------------------|-------------|
| <b>Year ended 30 June 2010</b>  |                                |                      |                |                                           |                             |             |
| Opening net book amount         | 50,000                         | 100,000              | 2,500,000      | 223,062                                   | 65,025                      | 2,938,087   |
| Acquisitions                    | 5,932,006                      | 30,805               | -              | 194,154                                   | -                           | 6,156,965   |
| Amortisation                    | (444,900)                      | -                    | -              | (75,692)                                  | -                           | (520,592)   |
| Impairment of assets            | -                              | (100,000)            | -              | -                                         | (65,025)                    | (165,025)   |
| Carrying amount at 30 June 2010 | 5,537,106                      | 30,805               | 2,500,000      | 341,524                                   | -                           | 8,409,435   |

#### At 30 June 2010

|                                     |             |           |             |          |          |             |
|-------------------------------------|-------------|-----------|-------------|----------|----------|-------------|
| Cost                                | 9,829,334   | 280,805   | 5,132,469   | 417,216  | 65,025   | 15,724,849  |
| Accumulated amortisation/impairment | (4,292,228) | (250,000) | (2,632,469) | (75,692) | (65,025) | (7,315,414) |
| Carrying amount at 30 June 2010     | 5,537,106   | 30,805    | 2,500,000   | 341,524  | -        | 8,409,435   |

## **Notes to the Financial Statements (Continued)**

For the year ended 30 June 2011

### **11. Non-Current Assets – Intangible Assets (Continued)**

#### **Goodwill**

The Goodwill balances relate to the acquisitions of Webfirm and Full Circle Online. At June 2011 the Directors passed an impairment expense of \$2,749,184, thereby removing all Goodwill.

#### **Intellectual property**

##### *Business names and domain names*

Business name and domain name opening balance of \$30,805 relates to the various business names and domain names held by Webfirm CGU. During the year under review domain names amounting to \$7,462 was acquired by Adslot CGU. The Directors have assessed that this intellectual property has an indefinite useful life on the basis that the Directors do not believe that there is a foreseeable limit on the period over which this asset is expected to generate cash inflows for the entity.

The carrying value of this intellectual property attached to the Webfirm CGU and Adslot CGU (and segments) was reviewed and with sufficient future benefits being expected from the asset, no impairment was required.

##### *Copyright and patent licences*

Adslot Pty Ltd ("Adslot") holds valuable copyright and patent licences ("Licences") in respect of Combinatorial Auction Platform Technology ("CAP" or "Core IP") owned by Enterprise Point Pty Ltd and its controlled entities ("Enterprise"). \$5,487,106 of opening balance relates to this "CAP" technology with balance \$50,000 applicable to business name held as a result of the Webfirm acquisition

The directors have assessed the accounting useful life of the Adslot Licences for accounting purposes to be five years. This assessment has given regard to the expected financial benefits of the technology to be potentially well beyond a five year period, together with the risk that competitors could replicate this technology over time, and therefore the potential for the company's ongoing commitment to research and development of the Core IP.

Adimise Pty Ltd ("Adimise") holding online ad-serving technology was acquired during the year for \$246,470, and at acquisition date, held net liabilities exceeding assets of \$24,585 (see Note 19 Business Combinations). The directors have determined that the carrying value of this intellectual property should not exceed the residual value of \$271,055 (\$246,470 + \$24,585). Accordingly the fair value of the Ad-serving IP attached to the Adslot CGU has been determined to be \$271,055.

The directors have assessed the accounting useful life of the Adimise Licences for accounting purposes to be five years.

QDC IP Technology ("QDC") holding video advertising technology was acquired during the year for \$6,477,345, and at acquisition date, held net tangible assets and liabilities of fair value \$10,828 (see Note 19 Business Combinations). Deferred vendor consideration included in the vendor agreement has resulted in further contingent consideration related to this acquisition amounting to \$106,800.

Notwithstanding the Independent Expert's Report (for the QDC transaction) included an assessment that the fair value of the Core IP could be as high as \$7,700,000, having regard to the subjective nature of the valuation for this type of asset, the directors have determined the fair value of intellectual property should not exceed the residual value of \$6,466,517. Accordingly the fair value of the Licences to the Core IP attached to the Adslot CGU has been determined to be \$6,466,517.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 11. Non-Current Assets – Intangible Assets (Continued)

The directors have assessed the accounting useful life of the Licences for accounting purposes to be five years. This assessment has given regard to the expected financial benefits of the technology to be potentially well beyond a five year period, together with the risk that competitors could replicate this technology over time, and therefore the potential for the Group's ongoing commitment to research and development of the Core IP.

Accumulated amortisation of this asset as at 30 June 2011 was \$731,691 (2010: \$nil). The amortisation period of the intangible asset is five years on a straight line basis.

#### Software

The \$341,524 opening balance in internally development software is related to costs associated with three internally developed software platforms capitalised according to accounting standards. During the year under review the Group sold one internally developed software with an opening balance amounting to \$148,369.

The Directors are of the opinion that these software developments have a limited five year useful life and hence have been amortised accordingly by \$46,830 (2010: \$93,692).

|                 | 2011             | 2010             |
|-----------------|------------------|------------------|
|                 | \$               | \$               |
| Trade creditors | 241,130          | 453,219          |
| Other creditors | 1,229,140        | 693,077          |
|                 | <b>1,470,270</b> | <b>1,146,296</b> |

### 13. Current liabilities – Other

Current:

|                                         |                  |                  |
|-----------------------------------------|------------------|------------------|
| Unearned revenue (i)                    | 755,811          | 1,175,912        |
| Deferred vendor consideration- QDC (ii) | 354,776          | -                |
|                                         | <b>1,110,587</b> | <b>1,175,912</b> |

- (i) The significant portion current year unearned revenue pertains to website development and hosting invoices that are rendered based on full contract terms at the contracts inception, however performed over stages which straddle the balance sheet date.
- (ii) Deferred vendor consideration is the probability at 30 June 2011 of additional shares due on 7 May 2012 as further vendor consideration on QDC acquisition. Additional shares are required where the 5-day VWAP of the Company's share price is less than 10.9 cents at 7 May 2012. The position taken at this reporting date reflects a 50% probability that the Company's share price will be in a range of 7.5 cents to 10.9 cents.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

|                               | 2011<br>\$ | 2010<br>\$ |
|-------------------------------|------------|------------|
| <b>14. Current Provisions</b> |            |            |
| Current:                      |            |            |
| Employee benefits             | 164,603    | 124,197    |
| Non current:                  |            |            |
| Employee benefits             | 6,884      | 12,692     |

|                               | 2011<br>Number | 2010<br>Number | 2011<br>\$ | 2010<br>\$ |
|-------------------------------|----------------|----------------|------------|------------|
| <b>15. Contributed equity</b> |                |                |            |            |
| Ordinary Shares – Fully Paid  | 681,698,900    | 491,821,809    | 76,547,875 | 50,874,027 |

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the numbers of shares.

At the shareholders meeting each ordinary share is entitled to one vote when a poll is called, otherwise each shareholders has one vote on a show of hands.

### Movements in Paid-Up Capital

| Date             | Details                                               | Number of<br>shares | Issue<br>price<br>\$ | Capital<br>raising<br>costs<br>\$ | Value<br>\$       |
|------------------|-------------------------------------------------------|---------------------|----------------------|-----------------------------------|-------------------|
| <b>30-Jun-09</b> | <b>Balance</b>                                        | 138,558,520         |                      | 60,789                            | 37,358,173        |
| 28-Jul-09        | Share Placement                                       | 20,338,720          | 0.06                 | 57,426                            | 1,162,897         |
| 09-Sep-09        | Share Placement                                       | 39,661,280          | 0.06                 | 95,187                            | 2,284,490         |
| 16-Feb-10        | Share Placement                                       | 119,135,289         | 0.035                | 210,268                           | 3,959,467         |
| 16-Feb-10        | Issue of shares to sub-underwriters                   | 2,171,429           | 0.035                | -                                 | 76,000            |
| 16-Feb-10        | Issue of shares to Adslot Pty Ltd vendor              | 171,428,571         | 0.035                | -                                 | 6,000,000         |
| 14-Apr-10        | Employee ESOP shares                                  | 528,000             | 0.0625               | -                                 | 33,000            |
| <b>30-Jun-10</b> | <b>Balance</b>                                        | 491,821,809         |                      | 423,670                           | 50,874,027        |
| 08-Jul-10        | Issue of shares to Adimise Pty Ltd vendor             | 2,143,214           | 0.115                | -                                 | 246,470           |
| 08-Jul-10        | Issue of shares to Full Circle Online Pty Ltd vendor  | 2,142,500           | 0.115                | -                                 | 246,387           |
| 31-Aug-10        | Exercise of employee options                          | 800,000             | 0.100                | -                                 | 80,000            |
| 14-Sep-10        | Share Placement-professional investors                | 21,153,845          | 0.130                | 181,390                           | 2,568,610         |
| 17-Sep-10        | Share Placement-professional investors                | 37,096,155          | 0.130                | -                                 | 4,822,500         |
| 13-Oct-10        | Exercise of options- sub-underwriter                  | 1,000,000           | 0.090                | -                                 | 90,000            |
| 29-Oct-10        | Share Placement                                       | 94,412,286          | 0.130                | 328,843                           | 11,944,834        |
| 07-Dec-10        | Issue of shares to QDC IP Technologies Pty Ltd vendor | 29,309,091          | 0.190                | -                                 | 5,568,727         |
| 28-Feb-11        | Exercise of employee options                          | 100,000             | 0.100                | -                                 | 10,000            |
| 23-Mar-11        | Exercise of employee options                          | 1,300,000           | 0.056                | -                                 | 72,800            |
| 11-Apr-11        | Exercise of employee options                          | 420,000             | 0.056                | -                                 | 23,520            |
| <b>30-Jun-11</b> | <b>Balance</b>                                        | <b>681,698,900</b>  |                      | <b>933,903</b>                    | <b>76,547,875</b> |

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 15. Contributed equity (Continued)

Options issued, exercised and lapsed during the financial year and options outstanding at the end of the year are summarised below:

| Issue Type       | Notes | Expiry Date | Exercise Price \$ | Balance at beginning of the year (Number) | Issued during the year (Number) | Expired during the year (Number) | Exercised during the year (Number) | Balance at end of the year (Number) |
|------------------|-------|-------------|-------------------|-------------------------------------------|---------------------------------|----------------------------------|------------------------------------|-------------------------------------|
| Ordinary options |       | 10/04/11    | 0.50              | 2,000,000                                 | -                               | (2,000,000)                      | -                                  | -                                   |
| Ordinary options |       | 10/04/11    | 0.50              | 100,000                                   | -                               | (100,000)                        | -                                  | -                                   |
| Ordinary options |       | 30/06/12    | 0.10              | 6,000,003                                 | -                               | -                                | -                                  | 6,000,003                           |
| Ordinary options |       | 30/06/12    | 0.10              | 3,840,000                                 | -                               | (2,590,000)                      | (900,000)                          | 350,000                             |
| Ordinary options |       | 22/10/12    | 0.09              | 2,000,000                                 | -                               | -                                | (1,000,000)                        | 1,000,000                           |
| Ordinary options |       | 31/01/13    | 0.053             | 51,700,000                                | -                               | -                                | -                                  | 51,700,000                          |
| Ordinary options |       | 31/01/13    | 0.056             | 15,500,000                                | -                               | (3,600,000)                      | (1,720,000)                        | 10,180,000                          |
| Ordinary options | (i)   | 08/07/14    | 0.151             | -                                         | 2,000,000                       | -                                | -                                  | 2,000,000                           |
| Ordinary options | (ii)  | 29/08/14    | 0.096             | -                                         | 3,000,000                       | (2,690,411)                      | -                                  | 309,589                             |
| Ordinary options | (i)   | 30/09/14    | 0.116             | -                                         | 3,000,000                       | -                                | -                                  | 3,000,000                           |
| Ordinary options | (i)   | 30/09/14    | 0.190             | -                                         | 300,000                         | -                                | -                                  | 300,000                             |
|                  |       |             |                   | <b>81,140,003</b>                         | <b>8,300,000</b>                | <b>(10,980,411)</b>              | <b>(3,620,000)</b>                 | <b>74,839,592</b>                   |

(i) Options issued to employees for services rendered.

(ii) Options issued to employees for services rendered. Refer to Note 23 – Key Management Personnel Disclosures

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

|                                              | 2011             | 2010             |
|----------------------------------------------|------------------|------------------|
|                                              | \$               | \$               |
| <b>16. Reserves</b>                          |                  |                  |
| <b>Reserves</b>                              |                  |                  |
| Share-based payments reserve                 | 5,760,673        | 4,937,838        |
| Available for sale investment reserve        | 106,335          | -                |
| Foreign currency translation reserve         | (36,452)         | (36,408)         |
|                                              | <b>5,830,556</b> | <b>4,901,430</b> |
| <i>Share-based payments reserve</i>          |                  |                  |
| Opening balance                              | 4,937,838        | 4,005,029        |
| Option expense                               | 822,835          | 932,809          |
| Closing balance                              | <b>5,760,673</b> | <b>4,937,838</b> |
| <i>Available for sale investment reserve</i> |                  |                  |
| Opening balance                              | -                | -                |
| Movement in fair value                       | 106,335          | -                |
| Closing balance                              | <b>106,335</b>   | -                |
| <i>Foreign currency translation reserve</i>  |                  |                  |
| Opening balance                              | 36,408           | 29,526           |
| Movement on currency translation             | 44               | 6,882            |
| Closing balance                              | <b>36,452</b>    | <b>36,408</b>    |

The Share-based payments reserve is used to record the value of options accounted for in accordance with AASB2: *Share Based Payments*.

The available-for sale investment reserve is used to record net gain/loss arising on revaluation of available-for sale financial assets in accordance with AASB 7: *Financial Instruments Disclosure*.

The foreign currency translation reserve is used to record the value of aggregate movements in the translation of foreign currency in accordance with AASB 121: *The Effects of Changes in Foreign Exchange Rates*.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 17. Earnings Per Share

|                                                                                                                                                                                                                          | 2011<br>Cents  | 2010<br>Cents  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>(a) Basic earnings per share</b>                                                                                                                                                                                      |                |                |
| Loss attributable to the ordinary equity holders of the Company                                                                                                                                                          | (1.66)         | (1.42)         |
|                                                                                                                                                                                                                          |                |                |
|                                                                                                                                                                                                                          | 2011<br>Cents  | 2010<br>Cents  |
| <b>(b) Diluted earnings per share</b>                                                                                                                                                                                    |                |                |
| Loss attributable to the ordinary equity holders of the Company                                                                                                                                                          | (1.66)         | (1.42)         |
|                                                                                                                                                                                                                          |                |                |
|                                                                                                                                                                                                                          | 2011<br>\$     | 2010<br>\$     |
| <b>(c) Reconciliation of earnings used on calculating earnings per share (i)</b>                                                                                                                                         |                |                |
| Loss from continuing operations attributable to the members of the Company used on calculating basic and diluted earnings per share                                                                                      | (10,341,829)   | (4,218,601)    |
|                                                                                                                                                                                                                          |                |                |
|                                                                                                                                                                                                                          | 2011<br>Number | 2010<br>Number |
| <b>(d) Weighted average number of shares used as the denominator</b>                                                                                                                                                     |                |                |
| Weighted average number of shares on issue used in the calculation of basic EPS                                                                                                                                          | 623,779,891    | 297,831,081    |
|                                                                                                                                                                                                                          |                |                |
|                                                                                                                                                                                                                          | 2011<br>Number | 2010<br>Number |
| <b>(e) Weighted average number of shares used as the denominator</b>                                                                                                                                                     |                |                |
| Weighted average number of shares on issue used in the calculation of diluted EPS                                                                                                                                        | 623,779,891    | 297,831,081    |
|                                                                                                                                                                                                                          |                |                |
| (i) During 2011 and 2010 there were no discontinued operations or values attributable to minority interests.                                                                                                             |                |                |
|                                                                                                                                                                                                                          | 2011<br>Number | 2010<br>Number |
| Weighted average number of options that could potentially dilute basic earnings per share in the future, but are not included in the calculation of diluted EPS because they are anti-dilutive for the period presented. | 82,793,127     | 39,985,839     |

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 18. Discontinued Operations

There were no discontinued operations during the year ended 30 June 2011.

### 19. Business Combinations

#### 2011

#### Adimise Pty Ltd and Full Circle Online Pty Ltd:

On 8 July 2010 Webfirm Group Limited acquired 100% of the equity of Adimise Pty Ltd and Full Circle Online Pty Ltd. The deal provides Webfirm with Adimise's online ad-serving technology, key component of Webfirm's new Adslot Direct Platform. The acquisition costs related to this acquisition were \$8,932 which has been included in legal fees in the Statement of Comprehensive Income.

The acquired businesses contributed \$541,266 in revenue and a net loss of \$149,940 to the Group for the period from 8 July 2010 to 30 June 2011. These amounts have been calculated using the Company's accounting policies, and would have been the same had the acquisition occurred on 1 July 2010.

The purchase consideration consists of the following:

|                                                                      | \$      |
|----------------------------------------------------------------------|---------|
| Equity – 4,285,714 fully paid ordinary shares @ 11.5 cents per share | 492,857 |
| Total consideration paid                                             | 492,857 |

Subject to the achievement of certain post completion sales targets, additional deferred consideration of up to \$150,000 can become payable by the Group. No deferred consideration has been provided for as the directors' estimate that it is unlikely these targets will be met within the required time frame.

Details of assets and liabilities acquired are as follows:

|                                                  | Acquirees'<br>Carrying<br>Amount<br>\$ | Fair Value<br>\$ | \$      |
|--------------------------------------------------|----------------------------------------|------------------|---------|
| Purchase consideration                           |                                        |                  | 492,857 |
| Fair value of net identifiable assets acquired   |                                        |                  |         |
| Cash and cash equivalents                        | 106,855                                | 106,855          |         |
| Trade and other receivables                      | 197,177                                | 197,177          |         |
| Property, plant & equipment                      | 8,425                                  | 8,425            |         |
| Payables                                         | (333,197)                              | (333,197)        |         |
| Employee benefits                                | (6,643)                                | (6,643)          |         |
| Intangible assets (including formation expenses) | 16,943                                 | -                |         |
| Intellectual property – platform technology      | -                                      | 271,055          |         |
| Goodwill                                         | -                                      | 249,185          |         |
| Net identifiable assets acquired                 | (10,440)                               | 492,857          | 492,857 |

#### Statement of Cash Flows

For the purposes of the statement of cash flows, the acquisition resulted in net cash acquired of \$106,855.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### QDC IP Technologies IP Pty Ltd

On 7 December 2010 Adslot Pty Ltd acquired 100% of the equity of QDC IP Technologies Pty Ltd (QDC). QDC's Display Ad Builder and Personalised Video Ad Platform technologies will be combined with Adslot and Adimise technologies to create the new Adslot Direct Platform. The integration of QDC technology with Adslot Direct Platform will allow online publishers to offer an automated end to end advertisement sales system. The acquisition costs related to this acquisition were \$75,063 which has been included in legal fees and employment related costs in the Statement of Comprehensive Income.

The acquired businesses contributed no revenue and a net loss of \$987,208 to the Group for the period from 7 December 2010 to 30 June 2011. These amounts have been calculated using the Group's accounting policies.

The amount of revenue and losses for the combined entity calculated, had the acquisition occurred on 1 July 2010 would have been \$220,534 in revenue and a net loss of \$766,621.

The purchase consideration consists of the following:

|                                                                                                | \$               |
|------------------------------------------------------------------------------------------------|------------------|
| Cash                                                                                           | 801,818          |
| Equity – 29,309,091 fully paid ordinary shares of Webfirm Group Limited @ 19.0 cents per share | 5,568,727        |
| Deferred vendor consideration                                                                  | 106,800          |
| Total consideration paid                                                                       | <u>6,477,345</u> |

If at the end of an eighteen (18) month period from the date of acquisition, the total value of consideration paid to the Vendors is calculated to be less than \$4.0 million (using a VWAP of the Company's share price over the five (5) trading days prior to that date), then up to a maximum of 13.3 million additional Webfirm Group Limited shares is to be issued as further consideration. The directors assessed the potential fair value of contingent consideration at acquisition date to be \$106,800. The contingent consideration has been revalued at year end to its fair value of \$354,776. The movement in fair value of contingent consideration is taken to the Statement of Comprehensive Income.

Details of assets and liabilities acquired are as follows:

|                                                  | Acquirees'<br>Carrying<br>Amount<br>\$ | Fair Value<br>\$ | \$               |
|--------------------------------------------------|----------------------------------------|------------------|------------------|
| Purchase consideration                           |                                        |                  | 6,477,345        |
| Fair value of net identifiable assets acquired   |                                        |                  |                  |
| Cash and cash equivalents                        | 1,513                                  | 1,489            |                  |
| Trade and other receivables                      | 3,073                                  | 3,073            |                  |
| Property, plant & equipment                      | 6,266                                  | 6,266            |                  |
| Intangible assets (including formation expenses) | 236,272                                | -                |                  |
| Intellectual property – platform technology      | -                                      | 6,466,517        |                  |
| Net identifiable assets acquired                 | <u>247,124</u>                         | <u>6,477,345</u> | <u>6,477,345</u> |

Notwithstanding that the Independent Expert's Report (for the QDC transaction) included an assessment that the fair value of the platform technology could be as high as \$7.75 million, having regard to the subjective nature of the valuation for this type of asset, the directors have determined the fair value of intellectual property should not exceed the residual value of \$6,466,517. Accordingly the fair value of the platform technology has been determined to be \$6,466,517.

### Statement of Cash Flows

For the purposes of the statement of cash flows, the acquisition resulted in net cash acquired of \$1,489.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

2010

### Adslot Pty Ltd

On 16 February 2010 Webfirm Group Limited acquired 100% of the equity of Adslot Pty Ltd. Adslot designs and operates large scale 'private electronic marketplaces' for media publishers to sell premium advertising inventory to advertisers and advertising agencies. It uses combinatorial auction technology to maximise yield in publisher's premium advertising inventory. The acquisition costs relating to this acquisition were \$151,219 which has been included in the legal fees, salaries and employment related costs and other expense lines in the Statement of Comprehensive Income.

The acquired business contributed no revenue and a net loss of \$1,370,512 to the Group for the period from 16 February 2010 to 30 June 2010. These amounts have been calculated using the Group's accounting policies.

The amount of revenue and losses for the combined entity calculated had the acquisition occurred on 1 July 2009 would have been no revenue and a net loss of \$1,957,484.

The purchase consideration was made up entirely of equity and was settled as follows:

|                                                                       |                  |
|-----------------------------------------------------------------------|------------------|
| Equity – 171,428,571 fully paid ordinary shares @ 3.5 cents per share | 6,000,000        |
| <b>Total consideration</b>                                            | <b>6,000,000</b> |

Details of net assets acquired and technology platform intellectual property are as follows:

|                                                       | Acquiree's<br>Carrying<br>Amount | Fair<br>Value    | \$               |
|-------------------------------------------------------|----------------------------------|------------------|------------------|
|                                                       | \$                               | \$               |                  |
| Purchase consideration                                |                                  |                  | 6,000,000        |
| <b>Fair value of net identifiable assets acquired</b> |                                  |                  |                  |
| Cash and cash equivalents                             | 146,150                          | 146,150          |                  |
| Sundry debtors                                        | 182,305                          | 182,305          |                  |
| Property, plant and equipment                         | 786                              | 786              |                  |
| Development costs                                     | 240,000                          | -                |                  |
| Intellectual property – technology platform           | -                                | 5,932,006        |                  |
| Employee benefits                                     | (9,240)                          | (9,240)          |                  |
| Payables                                              | (252,007)                        | (252,007)        |                  |
| <b>Net identifiable assets acquired</b>               | <b>307,994</b>                   | <b>6,000,000</b> | <b>6,000,000</b> |

The directors determined the fair value attributable to technology platform intellectual property was \$5,932,006 (Note 11). The directors have assessed the recoverable amount of intellectual property in accordance with AASB 136 *Impairment of Assets* as outlined in Note 11.

### Statement of Cash Flows

For the purposes of the statement of cash flows, the acquisition resulted in net cash acquired of \$146,150.

## 20. Contingencies

No contingent assets or liabilities are noted.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

|                                                                                                                           | 2011             | 2010           |
|---------------------------------------------------------------------------------------------------------------------------|------------------|----------------|
|                                                                                                                           | \$               | \$             |
| <b>21. Commitments</b>                                                                                                    |                  |                |
| <i>Operating lease commitments</i>                                                                                        |                  |                |
| Total operating lease expenditure contracted for at balance date but not capitalised in the financial statements payable: |                  |                |
| Within 1 year                                                                                                             | 558,282          | 341,095        |
| Between 1 and 5 years                                                                                                     | 676,541          | 446,579        |
|                                                                                                                           | <b>1,234,823</b> | <b>787,674</b> |

The lease commitments detailed above relate to rental premises occupied by the Webfirm Group and lease rental of computer servers.

### *Capital commitments*

The Group and the Company have not entered any capital expenditure contracts at reporting date that are not recognised as liabilities on the Statement of Financial Position.

|                                                                                     | 2011   | 2010   |
|-------------------------------------------------------------------------------------|--------|--------|
|                                                                                     | \$     | \$     |
| <b>22. Remuneration of auditors</b>                                                 |        |        |
| During the year the following fees were paid/payable to the auditor of the company: |        |        |
| <b>Audit services</b>                                                               |        |        |
| Audit and review of financial reports                                               | 90,000 | 85,000 |

## **Notes to the Financial Statements (Continued)**

For the year ended 30 June 2011

### **23. Key Management Personnel Disclosures**

#### *Directors*

The following persons were directors of the Company during the financial year:

|                                            |                               |
|--------------------------------------------|-------------------------------|
| Mr Adrian Giles (Executive Chairman)       |                               |
| Mr Andrew Barlow (Executive Director)      |                               |
| Mr David Burden (Managing Director)        |                               |
| Mr Adrian Vanzyl (Non-Executive Director)  | (resigned 20 June 2011)       |
| Mr Anthony Du Preez (Executive Director)   |                               |
| Mr Chris Morris (Non-Executive Director)   | (appointed 20 September 2010) |
| Ms Tiffany Fuller (Non-Executive Director) | (appointed 20 June 2011)      |

#### *Other key management personnel*

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| <b>Name</b>       | <b>Position</b>                                                                     |
|-------------------|-------------------------------------------------------------------------------------|
| Mr Gavan Flower   | Chief Financial Officer (resigned 13 September 2010)                                |
| Mr Damian Element | Chief Financial Officer (appointed 13 September 2010 and resigned 15 November 2010) |
| Mr Brendan Maher  | Chief Financial Officer (appointed 15 November 2010)                                |
| Mr Mathew Chamley | Regional General Manager Webfirm P/L (appointed 28 July 2009)                       |

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 23. Key Management Personnel Disclosures (continued)

#### Key management personnel compensation

|                                   | 2011      | 2010      |
|-----------------------------------|-----------|-----------|
|                                   | \$        | \$        |
| Short-term employee benefits      | 1,297,734 | 1,245,032 |
| Post-employment benefits          | 58,454    | 74,191    |
| Other long-term employee benefits | -         | (11,252)  |
| Termination benefits              | 19,584    | 81,277    |
| Share based payments              | 437,574   | 952,058   |
| Total compensation                | 1,813,346 | 2,341,306 |

#### Other transactions with key management personnel

##### Loans to key management personnel

Aggregate loans to key management personnel and their related parties:

| Loans to key management personnel | Balance at beginning | Loans granted | Interest charged | Amounts repaid | Balance at end | Number in group |
|-----------------------------------|----------------------|---------------|------------------|----------------|----------------|-----------------|
|                                   | \$                   | \$            | \$               | \$             | \$             |                 |
| 2011                              | 200,000              | -             | -                | -              | 200,000        | 1               |
| 2010                              | 205,543              | -             | 145              | (5,688)        | 200,000        | 1               |

Key management personnel with loans above \$100,000 in the reporting period:

|           | Balance at beginning | Loans granted | Interest charged | Amounts repaid | Balance at end | Highest in period |
|-----------|----------------------|---------------|------------------|----------------|----------------|-------------------|
|           | \$                   | \$            | \$               | \$             | \$             | \$                |
| 2011      |                      |               |                  |                |                |                   |
| D. Burden | 200,000              | -             | -                | -              | 200,000        | 200,000           |
| 2010      |                      |               |                  |                |                |                   |
| D. Burden | 200,000              | -             | -                | -              | 200,000        | 200,000           |

The \$200,000 loan represents financial assistance provided to the CEO for the purpose of acquiring 10,000,000 shares (pre-consolidation equivalent to 2,000,000 post consolidation) in the Company. The loan was provided on an interest free basis. The interest not charged, calculated at the statutory interest rate of 6.65% for the year ended 30 June 2011, was \$13,300. The loan was approved by shareholders at an Extraordinary General Meeting held 16 September 2008.

#### Business Acquisitions:

Both Mr Adrian Giles and Mr Andrew Barlow were significant shareholders of QDC Technologies Pty Ltd prior to the acquisition made by the Group as detailed in Note 19. Under the terms of the transactions Mr Adrian Giles (shares) and Mr Andrew Barlow (cash) received compensation for the shares that they held in QDC Technologies. These relationships were disclosed in the Notice of Meeting for the AGM held on 30 November 2010 and in the Independent Expert's Report prepared as part of the transaction.

#### Transactions with Directors and their personally related entities:

During the year payments of \$64,806 were made to Venturian Pty Ltd an entity related to Mr Andrew Barlow for consulting services on normal terms and conditions.

During the year receipts of \$52,661 were received from Colonial Leisure Group an entity related to Mr Chris Morris for website hosting and search marketing services on normal terms and conditions.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 23. Key Management Personnel Disclosures (continued)

#### Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Webfirm Group Limited and other key management personnel of the group, including their personally related parties are set out below:

| 2011<br>Name                      | Balance<br>at the start<br>of the year<br>(Number) | Granted during<br>the year as<br>compensation<br>(Number) | Exercised<br>during the<br>year<br>(Number) | Forfeited/<br>Lapsed<br>during the<br>year<br>(Number) | Balance<br>at the end<br>of the year<br>(Number) | Vested and<br>exercisable<br>at the<br>year end<br>(Number) |
|-----------------------------------|----------------------------------------------------|-----------------------------------------------------------|---------------------------------------------|--------------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------|
| <i>Directors</i>                  |                                                    |                                                           |                                             |                                                        |                                                  |                                                             |
| Mr A Giles                        | 13,800,001                                         | -                                                         | -                                           | -                                                      | 13,800,001                                       | 13,800,001                                                  |
| Mr A Barlow                       | 11,900,001                                         | -                                                         | -                                           | (2,000,000)                                            | 9,900,001                                        | 9,900,001                                                   |
| Mr D Burden                       | 13,000,000                                         | -                                                         | -                                           | -                                                      | 13,000,000                                       | 13,000,000                                                  |
| Mr A Vanzyl                       | 9,000,001                                          | -                                                         | -                                           | -                                                      | 9,000,001                                        | 9,000,001                                                   |
| Mr A Du Preez                     | 8,500,000                                          | -                                                         | -                                           | -                                                      | 8,500,000                                        | 8,500,000                                                   |
| Mr C Morris                       | -                                                  | -                                                         | -                                           | -                                                      | -                                                | -                                                           |
| Ms T Fuller                       | -                                                  | -                                                         | -                                           | -                                                      | -                                                | -                                                           |
| Other key management<br>personnel |                                                    |                                                           |                                             |                                                        |                                                  |                                                             |
| Mr D Element                      | 4,700,000                                          | -                                                         | (800,000)                                   | (400,000)                                              | 3,500,000                                        | 3,500,000                                                   |
| Mr M Chamley                      | 4,000,000                                          | -                                                         | -                                           | -                                                      | 4,000,000                                        | 2,000,000                                                   |
| Mr G Flower                       | -                                                  | 3,000,000                                                 | -                                           | (2,690,411)                                            | 309,589                                          | 309,589                                                     |
| Mr B Maher                        | -                                                  | -                                                         | -                                           | -                                                      | -                                                | -                                                           |
| <b>Totals</b>                     | <b>64,900,003</b>                                  | <b>3,000,000</b>                                          | <b>(800,000)</b>                            | <b>(5,090,411)</b>                                     | <b>62,009,592</b>                                | <b>60,009,592</b>                                           |

| 2010<br>Name                              | Balance<br>at the start<br>of the year<br>(Number) | Granted during<br>the year as<br>compensation<br>(Number) | Exercised<br>during the<br>year<br>(Number) | Other<br>changes<br>during the<br>year<br>(Number) | Balance<br>at the end<br>of the year<br>(Number) | Vested and<br>exercisable<br>at the<br>year end<br>(Number) |
|-------------------------------------------|----------------------------------------------------|-----------------------------------------------------------|---------------------------------------------|----------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------|
| <i>Directors</i>                          |                                                    |                                                           |                                             |                                                    |                                                  |                                                             |
| Mr A Giles                                | 2,000,001                                          | 11,800,000                                                | -                                           | -                                                  | 13,800,001                                       | 7,900,001                                                   |
| Mr A Barlow                               | 4,000,001                                          | 7,900,000                                                 | -                                           | -                                                  | 11,900,001                                       | 7,950,001                                                   |
| Mr D Burden                               | -                                                  | 13,000,000                                                | -                                           | -                                                  | 13,000,000                                       | 6,500,000                                                   |
| Mr A Vanzyl                               | 2,000,001                                          | 7,000,000                                                 | -                                           | -                                                  | 9,000,001                                        | 5,500,001                                                   |
| Mr A Du Preez                             | -                                                  | 8,500,000                                                 | -                                           | -                                                  | 8,500,000                                        | 4,250,000                                                   |
| <i>Other key management<br/>personnel</i> |                                                    |                                                           |                                             |                                                    |                                                  |                                                             |
| Mr D Element                              | 1,200,000                                          | 3,500,000                                                 | -                                           | -                                                  | 4,700,000                                        | 4,300,000                                                   |
| Mr J Edis                                 | 1,200,000                                          | -                                                         | -                                           | -                                                  | 1,200,000                                        | 800,000                                                     |
| Mr A Beecher                              | 1,200,000                                          | -                                                         | -                                           | -                                                  | 1,200,000                                        | 800,000                                                     |
| Mr S Jones                                | 1,200,000                                          | 600,000                                                   | -                                           | -                                                  | 1,800,000                                        | 800,000                                                     |
| Mr M Chamley                              | -                                                  | 4,000,000                                                 | -                                           | -                                                  | 4,000,000                                        | -                                                           |
| Mr G Flower                               | -                                                  | -                                                         | -                                           | -                                                  | -                                                | -                                                           |
| <b>Totals</b>                             | <b>12,800,003</b>                                  | <b>56,300,000</b>                                         | <b>-</b>                                    | <b>-</b>                                           | <b>69,100,003</b>                                | <b>38,800,003</b>                                           |

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 23. Key Management Personnel Disclosures (continued)

#### Equity holdings and transactions

The numbers of shares in the company held during the financial year by each director of Webfirm Group Limited and other key management personnel of the Group, including their personally related parties, are set out below.

| <b>2011</b>                               |                                |                                                                    |                                                         |                                                  |                                 |
|-------------------------------------------|--------------------------------|--------------------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------|---------------------------------|
| <b>Name</b>                               | <b>Held at<br/>1 July 2010</b> | <b>Received<br/>during the year<br/>on exercise of<br/>options</b> | <b>Received during<br/>the year as<br/>compensation</b> | <b>Net other<br/>changes during<br/>the year</b> | <b>Held at<br/>30 June 2011</b> |
| <b>Ordinary shares</b>                    |                                |                                                                    |                                                         |                                                  |                                 |
| <i>Directors</i>                          |                                |                                                                    |                                                         |                                                  |                                 |
| Mr A Giles                                | 15,062,872                     | -                                                                  | -                                                       | 3,358,416                                        | 18,421,288                      |
| Mr A Barlow                               | 57,140,133                     | -                                                                  | -                                                       | -                                                | 57,140,133                      |
| Mr D Burden                               | 5,900,731                      | -                                                                  | -                                                       | (269,232)                                        | 5,631,499                       |
| Mr A Vanzyl*                              | 2,164,277                      | -                                                                  | -                                                       | (2,164,277)                                      | -                               |
| Mr A Du Preez                             | 12,968,051                     | -                                                                  | -                                                       | -                                                | 12,968,051                      |
| Mr C Morris                               | -                              | -                                                                  | -                                                       | 57,130,848                                       | 57,130,848                      |
| Ms T Fuller                               | -                              | -                                                                  | -                                                       | 100,000                                          | 100,000                         |
| <i>Other key management<br/>personnel</i> |                                |                                                                    |                                                         |                                                  |                                 |
| Mr D Element*                             | 795,091                        | 800,000                                                            | -                                                       | (1,595,091)                                      | -                               |
| Mr M Chamley                              | 229,089                        | -                                                                  | -                                                       | -                                                | 229,089                         |
| Mr G Flower*                              | -                              | -                                                                  | -                                                       | -                                                | -                               |
| Mr B Maher                                | -                              | -                                                                  | -                                                       | -                                                | -                               |
| <b>Totals</b>                             | <b>94,260,244</b>              | <b>800,000</b>                                                     | <b>-</b>                                                | <b>56,560,664</b>                                | <b>151,620,908</b>              |

\*shareholding effective as at date of resignation

| <b>2010</b>                               |                                |                                                                    |                                                         |                                                  |                                 |
|-------------------------------------------|--------------------------------|--------------------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------|---------------------------------|
| <b>Name</b>                               | <b>Held at<br/>1 July 2009</b> | <b>Received<br/>during the year<br/>on exercise of<br/>options</b> | <b>Received during<br/>the year as<br/>compensation</b> | <b>Net other<br/>changes during<br/>the year</b> | <b>Held at<br/>30 June 2010</b> |
| <b>Ordinary shares</b>                    |                                |                                                                    |                                                         |                                                  |                                 |
| <i>Directors</i>                          |                                |                                                                    |                                                         |                                                  |                                 |
| Mr A Giles                                | 3,882,962                      | -                                                                  | -                                                       | 11,179,910                                       | 15,062,872                      |
| Mr A Barlow                               | 5,418,064                      | -                                                                  | -                                                       | 51,722,069                                       | 57,140,133                      |
| Mr D Burden                               | 4,484,065                      | -                                                                  | -                                                       | 1,416,666                                        | 5,900,731                       |
| Mr A Vanzyl                               | 1,155,833                      | -                                                                  | -                                                       | 1,008,444                                        | 2,164,277                       |
| Mr A Du Preez                             | -                              | -                                                                  | -                                                       | 12,968,051                                       | 12,968,051                      |
| <i>Other key management<br/>personnel</i> |                                |                                                                    |                                                         |                                                  |                                 |
| Mr J Edis                                 | 414,286                        | -                                                                  | -                                                       | (414,286)                                        | -                               |
| Mr A Beecher                              | 294,286                        | -                                                                  | -                                                       | (294,286)                                        | -                               |
| Mr S Jones                                | 14,286                         | -                                                                  | 16,000                                                  | -                                                | 30,286                          |
| Mr D Element                              | 795,091                        | -                                                                  | -                                                       | -                                                | 795,091                         |
| Mr M Chamley                              | -                              | -                                                                  | 16,000                                                  | 213,089                                          | 229,089                         |
| Mr G Flower                               | -                              | -                                                                  | -                                                       | -                                                | -                               |
| <b>Totals</b>                             | <b>16,458,873</b>              | <b>-</b>                                                           | <b>32,000</b>                                           | <b>77,799,657</b>                                | <b>94,290,530</b>               |

## **Notes to the Financial Statements (Continued)**

For the year ended 30 June 2011

### **24. Share Based Payments**

#### **Employee share option plan**

The Company has operated an ownership-based scheme for executives and senior employees of the Group. This was approved by shareholders at the 2009 Annual General Meeting. Awards were made under this plan up to October 2010 such that senior employees and an executive were granted options to purchase parcels of ordinary shares at an exercise prices ranging from 9.6 cents to 19.0 cents per ordinary share.

Each share option converts into one ordinary share of Webfirm Group Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry no voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The vesting dates of these Options are detailed in the table below. All Option tranches are based the individual remaining an employee of the Group. The plan rules allow departed employees to retain their options for a period of time based on the length of their service with the Company and the nature of their separation from the Company. The board considered these conditions appropriate to ensure the objective of maintaining key staff within the Company.

The Company has valued these options in accordance with accounting standards. The total value of these options vested was assessed at \$32,015. There is no amount remaining to be expensed in future years.

The board has no formal policy in place for limiting the risk of executive and senior employees of the Group in relation to the options issued.

2,620,000 options provided as remuneration were exercised during the year.

Set out below are summaries of options granted to employees of the Webfirm Group during the year in return for services rendered.

#### **Other Options Issued**

1,000,000 options issued as consideration for services provided by a third party supplier in prior years, were exercised during the year.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 24. Share Based Payments (continued)

#### 2011

| Grant Date                             | Expiry Date | Exercise Price | Balance at start of the year Number | Granted during the year Number | Exercised during the year Number | Lapsed during the year Number | Forfeited during the year Number | Balance at end of the year Number | Vested and exercisable at the end of the year Number |
|----------------------------------------|-------------|----------------|-------------------------------------|--------------------------------|----------------------------------|-------------------------------|----------------------------------|-----------------------------------|------------------------------------------------------|
| 30/06/06                               | 10/04/11    | 0.50           | 2,000,000                           | -                              | -                                | (2,000,000)                   | -                                | -                                 | -                                                    |
| 01/04/08                               | 10/04/11    | 0.50           | 100,000                             | -                              | -                                | (100,000)                     | -                                | -                                 | -                                                    |
| 27/08/08                               | 30/06/12    | 0.10           | 3,840,000                           | -                              | (900,000)                        | (2,590,000)                   | -                                | 350,000                           | 350,000                                              |
| 23/09/08                               | 30/06/12    | 0.10           | 6,000,003                           | -                              | -                                | -                             | -                                | 6,000,003                         | 6,000,003                                            |
| 21/10/09                               | 22/10/12    | 0.09           | 2,000,000                           | -                              | (1,000,000)                      | -                             | -                                | 1,000,000                         | 1,000,000                                            |
| 16/02/10                               | 31/01/13    | 0.053          | 51,700,000                          | -                              | -                                | -                             | -                                | 51,700,000                        | 51,700,000                                           |
| 16/02/10                               | 31/01/13    | 0.056          | 15,500,000                          | -                              | (1,720,000)                      | (3,600,000)                   | -                                | 10,180,000                        | 4,730,000                                            |
| 28/07/10                               | 08/07/14    | 0.151          | -                                   | 2,000,000                      | -                                | -                             | -                                | 2,000,000                         | -                                                    |
| 30/08/10                               | 29/08/14    | 0.096          | -                                   | 3,000,000                      | -                                | -                             | (2,690,411)                      | 309,589                           | 309,589                                              |
| 14/10/10                               | 30/09/14    | 0.116          | -                                   | 3,000,000                      | -                                | -                             | -                                | 3,000,000                         | -                                                    |
| 14/10/10                               | 30/09/14    | 0.190          | -                                   | 300,000                        | -                                | -                             | -                                | 300,000                           | -                                                    |
| <b>Total</b>                           |             |                | <b>81,140,003</b>                   | <b>8,300,000</b>               | <b>(3,620,000)</b>               | <b>(8,290,000)</b>            | <b>(2,690,411)</b>               | <b>74,839,592</b>                 | <b>64,089,592</b>                                    |
| <b>Weighted average exercise price</b> |             |                | <b>\$0.072</b>                      | <b>\$0.120</b>                 | <b>\$0.076</b>                   | <b>\$0.182</b>                | <b>\$0.096</b>                   | <b>\$0.064</b>                    | <b>\$0.059</b>                                       |

Weighted average remaining contractual life at 30 June 2011 (days)

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#### 2010

| Grant Date                             | Expiry Date | Exercise Price | Balance at start of the year Number | Granted during the year Number | Exercised during the year Number | Lapsed during the year Number | Forfeited during the year Number | Balance at end of the year Number | Vested and exercisable at the end of the year Number |
|----------------------------------------|-------------|----------------|-------------------------------------|--------------------------------|----------------------------------|-------------------------------|----------------------------------|-----------------------------------|------------------------------------------------------|
| 30/06/06                               | 10/04/11    | 0.50           | 2,000,000                           | -                              | -                                | -                             | -                                | 2,000,000                         | 2,000,000                                            |
| 01/04/08                               | 10/04/11    | 0.50           | 100,000                             | -                              | -                                | -                             | -                                | 100,000                           | 100,000                                              |
| 27/08/08                               | 30/06/12    | 0.10           | 5,660,000                           | -                              | -                                | -                             | (1,820,000)                      | 3,840,000                         | 3,673,333                                            |
| 23/09/08                               | 30/06/12    | 0.10           | 6,000,003                           | -                              | -                                | -                             | -                                | 6,000,003                         | 6,000,003                                            |
| 21/10/09                               | 22/10/12    | 0.09           | -                                   | 2,000,000                      | -                                | -                             | -                                | 2,000,000                         | 2,000,000                                            |
| 16/02/10                               | 31/01/13    | .053           | -                                   | 51,700,000                     | -                                | -                             | -                                | 51,700,000                        | 27,600,000                                           |
| 16/02/10                               | 31/01/13    | .056           | -                                   | 15,500,000                     | -                                | -                             | -                                | 15,500,000                        | -                                                    |
| <b>Total</b>                           |             |                | <b>13,760,003</b>                   | <b>69,200,000</b>              | <b>-</b>                         | <b>-</b>                      | <b>(1,820,000)</b>               | <b>81,140,003</b>                 | <b>41,373,336</b>                                    |
| <b>Weighted average exercise price</b> |             |                | <b>\$0.161</b>                      | <b>\$0.055</b>                 | <b>-</b>                         | <b>-</b>                      | <b>\$0.10</b>                    | <b>\$0.072</b>                    | <b>\$0.088</b>                                       |

Weighted average remaining contractual life at 30 June 2010 (days)

897

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 24. Share Based Payments (Continued)

No options expired during the periods covered by the above tables.

Options are valued using the Binomial option pricing model. The model inputs for options granted during the year ended 30 June 2011 included:

| Model Input                   | Class #1 |
|-------------------------------|----------|
| Grant Date                    | 30/08/10 |
| Exercise Date                 | 08/04/11 |
| Expiry Date                   | 29/08/14 |
| Exercise Price                | \$0.096  |
| Price at Effective Grant Date | \$0.07   |
| Expected Volatility           | 102.9%   |
| Expected Dividend Yield       | 0%       |
| Risk Free Interest Rate       | 4.80%    |

The volatility calculation is based upon historical share price information of the Company from the commencement of the Adslot acquisition within the Group (16 February 2010) up to the grant date.

The model inputs for options granted during the year ended 30 June 2010 included:

| Model Input             | Class #1 | Class #2 | Class #3 | Class #4 |
|-------------------------|----------|----------|----------|----------|
| Grant Date              | 16/02/10 | 16/02/10 | 16/02/10 | 16/02/10 |
| Exercise Date           | 16/02/10 | 01/02/11 | 16/02/11 | 16/02/12 |
| Expiry Date             | 31/01/13 | 31/01/13 | 31/01/13 | 31/01/13 |
| Exercise Price          | \$0.053  | \$0.053  | \$0.056  | \$0.056  |
| Price at Grant Date     | \$0.04   | \$0.04   | \$0.04   | \$0.04   |
| Expected Volatility     | 100.4%   | 100.4%   | 100.4%   | 100.4%   |
| Expected Dividend Yield | 0%       | 0%       | 0%       | 0%       |
| Risk Free Interest Rate | 4.76%    | 4.76%    | 4.76%    | 4.76%    |

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

|                                                                                                   | 2011         | 2010        |
|---------------------------------------------------------------------------------------------------|--------------|-------------|
|                                                                                                   | \$           | \$          |
| <b>25. Cash Flow reconciliation</b>                                                               |              |             |
| <b>Reconciliation of Net Cash Flows from Operating Activities to Loss for the year</b>            |              |             |
| Loss for the year after income tax                                                                | (10,341,829) | (4,218,601) |
| Depreciation and amortisation                                                                     | 2,182,718    | 652,165     |
| Impairment of intangibles                                                                         | 2,749,184    | 165,025     |
| Share based payment                                                                               | 822,835      | 932,809     |
| Impairment of receivables                                                                         | 340,717      | 325,410     |
| Loss on asset write off                                                                           | 42,903       | 26,355      |
| Unrealised foreign currency (loss)/gain                                                           | 49,895       | (75,283)    |
| <i>Changes in assets and liabilities (net of effects of acquisition and disposal of entities)</i> |              |             |
| Decrease/(Increase) in receivables                                                                | 208,074      | 373,510     |
| (Decrease)/Increase in payables and other provisions                                              | (46,593)     | (2,520,119) |
| Net cash outflow from operating activities                                                        | (3,922,096)  | (4,338,729) |

## 26. Financial Risk Management

The Group's operations expose it to various financial risks including market, credit, liquidity and cash flow risks. Risk management programmes and policies are employed to mitigate the potential adverse effects of these exposures on the results of the Group.

Financial risk management is carried out by the Chief Financial Officer with oversight provided by the Board.

### (a) Market risks

Market risks include foreign exchange risk, interest rate risk and other price risk. The Group's activities expose it to the financial risks of changes in foreign currency, interest rate risk relating to interest earned on cash and cash equivalents and price risk on available-for-sale financial assets.

In the current reporting period the foreign currency related exposure is not considered to be material to the entity's overall business operation. Foreign currency exposure is monitored by the Board on a quarterly basis. The Board has considered that any specific risk mitigation action is not required at this time.

Disclosures relating Interest rate risk is covered in Note 26(d) and price risk is covered in Note 26(e). The Group does not have formal policies that address the risks associated with changes in interest rates or changes in fair values on available-for-sale financial assets.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 26. Financial Risk Management (Continued)

#### (b) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets, other than investments, of the Group which have been recognised in the Consolidated Statement of Financial Position is the carrying amount net of any provision for doubtful debts.

The Group has no significant concentrations of credit risk. As disclosed in Note 8 a), 'Impairment of receivables', The Group has policies in place to ensure that sales of services are made to customers with appropriate credit history. Before accepting any new customers, the Group internally reviews the potential customer's credit quality. A substantial deposit on contract in website development and hosting segment of the Group mitigates initial credit risk.

The Group held the following financial assets with potential credit risk exposure:

|                             | 2011              | 2010             |
|-----------------------------|-------------------|------------------|
|                             | \$                | \$               |
| <b>Financial assets</b>     |                   |                  |
| Cash and cash equivalents   | 18,352,609        | 3,807,779        |
| Trade and other receivables | 1,391,435         | 1,939,976        |
|                             | <b>19,744,044</b> | <b>5,747,755</b> |

#### (c) Liquidity risk

##### Financial liabilities

|                          |                  |           |
|--------------------------|------------------|-----------|
| Trade and other payables | <b>1,470,270</b> | 1,146,296 |
|--------------------------|------------------|-----------|

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. Due to the dynamic nature of the underlying business, the Board aims at maintaining flexibility in funding by keeping committed credit lines and sufficient cash available.

All financial liabilities are expected to be settled within 12 months of the reporting date, per the contractual terms of the obligations.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 26. Financial Risk Management (Continued)

#### (d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets or liabilities (except cash), the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

##### *Interest rate sensitivity analysis*

The sensitivity analysis below has been determined based on exposure to interest rates on interest bearing bank balances throughout the reporting period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates (also comparable to movement in interest rates during the reporting year).

At reporting date, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Group's net profit would increase by \$156,713 and decrease by \$150,372 (2010: increase by \$9,450 and decrease by \$2,058). This is mainly attributable to the Group's exposure to interest rate on its bank balances bearing variable interest rates.

#### (e) Price risk

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments*: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

All financial assets held by the Group have been classified as level 3 as the available-for-sale financial assets are unlisted equities. The fair value of the available-for-sale financial assets were:

|                                            | 2011    | 2010 |
|--------------------------------------------|---------|------|
|                                            | \$      | \$   |
| <b>Available-for-sale financial assets</b> |         |      |
| Investments in unlisted equities           | 212,664 | -    |

The fair value of unlisted equities has been determined with reference to comparable equity transactions made by the unlisted company. A gain of \$106,335 has been included in other comprehensive income.

#### (f) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Group approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles. The fair value of these assets approximates their carrying value.

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2011

### 27. Parent Entity Information

The following details of information are related to the parent entity, Webfirm Group Limited, at 30 June 2011. This information has been prepared using consistent accounting policies as presented in Note 1.

|                                              | 2011<br>\$          | 2010<br>\$         |
|----------------------------------------------|---------------------|--------------------|
| Current assets                               | 18,110,475          | 3,672,805          |
| Non-current assets                           | 13,079,873          | 11,771,358         |
| <b>Total assets</b>                          | <b>31,190,348</b>   | <b>15,444,163</b>  |
| Current liabilities                          | 233,503             | 241,668            |
| Non-current liabilities                      | -                   | -                  |
| <b>Total liabilities</b>                     | <b>233,503</b>      | <b>241,668</b>     |
| Contributed equity                           | 76,547,875          | 50,874,027         |
| Share-based payments reserve                 | 5,760,673           | 4,937,838          |
| Available for sale investment reserve        | 106,335             | -                  |
| Retained losses                              | (51,458,038)        | (40,609,370)       |
| <b>Total equity</b>                          | <b>30,956,845</b>   | <b>15,202,495</b>  |
| Loss for the year                            | (10,848,668)        | (1,245,136)        |
| <b>Total comprehensive loss for the year</b> | <b>(10,848,668)</b> | <b>(1,245,136)</b> |

The capital commitments Note 21 includes commitments incurred by the parent entity related to leases of the old head office premises at 23 Union Street, South Melbourne and new head office premises at 85 Coventry Street, South Melbourne for an amount of \$909,890 (2010: \$189,267)

### 28. Related Party Transactions

Other than the transactions disclosed in Note 23 relating to Key Management Personnel, there have been no related party transactions that have occurred during the current or prior financial year.

### 29. Events Subsequent to Reporting Date

In August 2011 the purchaser of the AdFeed Engine, which was sold by us in September 2010, exercised their right to terminate the Sale Agreement. As a result no further earn out payments under that sale agreement will be earned by the Group. The amount carried at June 2011 for future earn out entitlement has been collected, as such this has no impact of the reported profit of the Group.

Other than this there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future years.

## Directors' Declaration

The directors declare that the financial statements, comprising the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, accompanying notes, as set out on pages 20 to 66 are in accordance with the *Corporations Act 2001* and:

- (a) comply with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements in Australia;
- (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
- (c) the company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

In the directors' opinion:

- (a) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (b) the audited remuneration disclosures set out on pages 9 to 17 of the Directors' Report comply with section 300A of the *Corporations Act 2001*.

The directors have been given the declaration by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



**Adrian Giles**  
Chairman  
Webfirm Group Limited

29 August 2011

## INDEPENDENT AUDITOR'S REPORT

To the members of Webfirm Group Limited

### Report on the Financial Report

We have audited the accompanying financial report of Webfirm Group Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* was given to the directors as at the time of this auditor's report.

### Opinion

In our opinion:

- (a) the financial report of Webfirm Group Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 17 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### Opinion

In our opinion, the Remuneration Report of Webfirm Group Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.



BDO Audit (NSW-VIC) Pty Ltd



**Michael Climpson**  
Director

Melbourne, Victoria

Dated this 29<sup>th</sup> day of August 2011

## Corporate Governance

The directors of Webfirm Group Limited have a commitment to maintain long term shareholder value, and recognise the benefits of good corporate governance in achieving this aim.

Having regard to the size and resources available to the company, the company endeavours at all times to comply with the Australian Stock Exchange Corporate Governance Principles and Recommendations ('ASX Principles'). Unless otherwise stated, the company complies with the ASX recommendations.

### *Principle 1: Lay solid foundations for management and oversight*

The Company has separate functions for board and senior management. The board and senior management functions are disclosed publicly in the Company Board Charter which is published on the Company's website. The board meet regularly to perform their prescribed functions, including formal meetings held each two months as well as additional ad hoc meetings where required.

Each of the board members is in regular contact with the CEO and CFO/Company Secretary. The company has a process for evaluating the performance of senior executives, including the evaluation of performance against key performance indicators by both the CEO and Board. The company has yet to publish this process publicly. A performance review of the chief executive officer and senior executives of the company has taken place prior to the date of this report, in accordance with the established process.

### *Principle 2: Structure the board to add value*

The Board seeks to ensure that its membership represents an appropriate balance between directors with experience and knowledge of the company, and directors with an external or fresh perspective, and that the size of the board is conducive to effective discussion and efficient decision making.

The Board is currently comprised of six board members, five of which are not considered independent directors. The only independent director is Ms Tiffany Fuller.

As such, the board composition is not in accordance with ASX corporate governance principles 2.1 (majority of board members be independent) and 2.2 (independent chair). However, the board considers that the individuals on the board can and do make quality and independent judgements in the best interest of the company on all relevant issues.

The role of chair and chief executive officer are held by different individuals. A description of the skills and experience of each of the directors and their period in office is contained in the Director's Report section of the Annual Report.

Because the Company has a board consisting of only six directors, the directors collectively perform the functions of a nomination committee, as the directors do not consider that any increase in efficiency or effectiveness would be achieved through the formation of a nomination committee.

The directors have access to a broad range of professional advisors who provide advice and assistance as requested by the directors, and at the expense of the Company. The company is yet to implement a formal process for evaluating the performance of the board, its committees or individual directors.

## **Corporate Governance Statement (Continued)**

### *Principle 3: Promote ethical and responsible decision-making*

The Company has a code of conduct for directors that provides policy and guidance on matters of conduct as directors. The aim of the code is to guide directors in the execution of their responsibilities, to ensure all legal obligations and stakeholder requirements are considered, and to provide all stakeholders with confidence in the integrity of the Company and the directors. The company actively complies with this policy. The code of conduct is published on the Company's website.

The Company has a policy concerning trading in company securities by directors and employees. The aim of this policy to provide guidance to directors and senior employees when acquiring or disposing of shares in the Company, and to ensure any acquisition or disposal of shares in the Company by a director or senior employee is conducted in accordance with legal and regulatory requirements and good corporate governance practice. The company actively complies with this policy. This policy is published on the Company's website.

To enable a director to carry out his or her duties, the board allows individual directors to seek independent professional advice after discussion with the chairman in the first instance. The aim of this practice is to ensure that all directors are in a position to have or to obtain all necessary information required for them to make an informed decision about any matter concerning the Company. Any necessary advice is obtained at the company's expense and advice obtained is made available to all directors.

The Company is committed to diversity in the work place and the benefit from accessing all available talent. The Company has not yet adopted or published an Equality and Diversity Policy. At 30 June Women filled 17% of the Company's Board, 0% of the Company's Senior Management and 16% of all staff positions within the Company.

### *Principle 4: Safeguard integrity in financial reporting*

During the 2010/11 financial year the audit and risk committee functions were performed by the board collectively, however in July 2011 the Company formed an Audit & Risk Committee. Ms Tiffany Fuller chairs the Audit & Risk Committee. Mr Chris Morris and Mr Adrian Giles are the committee's other two members.

As recommended by the ASX Principles the committee has at least 3 members, is chaired by an independent chair, who is not chair of the board. It however does not have only non-executive directors as members nor consist of a majority of independent directors.

The Audit & Risk Committee Charter can be found at the Company's website.

The board continues to have the power to make call upon the attendance of the CEO, CFO, the external auditor or any other person to the meeting from time to time. The directors also have access to professional advisors who provide advice and assistance as requested by the directors.

Compliance with accounting and financial reporting standards and procedures are subject to board review and review by the external auditors. Any non-executive director has direct access to the external auditor and is permitted to make such enquiries of the auditor as they feel necessary. The external auditor is invited to attend the annual general meeting and make himself or herself available to answer any questions pertaining to the conduct of the audit, the content of the audit report or the financial affairs of the Company.

## **Corporate Governance Statement (Continued)**

### *Principle 5: Make timely and balanced disclosure*

The company has a policy of complying with ASX disclosure requirements. The directors and senior management have received education and training on the subject of ASX disclosure requirements. The company actively complies with this policy. The policy is published on the Company website.

### *Principle 6: Respect the rights of shareholders*

The company has a policy for promoting effective communication with shareholders. The company actively complies with this policy, by way of regular ASX announcements; letters posted to shareholders, and shareholder presentations. The Company also provides the last three years' press releases and announcements on our website. The policy is published on the Company website.

### *Principle 7: Recognise and manage risk*

The directors of the Company take the management of business risk seriously, and is actively building policies and procedures aimed at identifying, evaluating and mitigating risk.

The Company is in the early stages of the development of its risk management procedures. The newly formed Audit & Risk Committee will formalise this process during the next financial year.

Material business risks are identified by directors or senior management are brought to the attention of the board via the newly established audit and risk committee, and prior to the establishment of the audit and risk committee, to the board directly. The Company has a formal business risk management policy and plan. The policy is published on the Company website.

The area of risk considered under the risk policy include: strategic and market risk; financial; asset and resources; personnel and productivity; intellectual property and information; product and operations; technological and systems; and legal and compliance risk. Financial risk management, including market risks, credit risk, liquidity risk, cash flow and fair value interest rate risk are each addressed in the annual report of the Company.

In accordance with section 295A of the Corporation Act, the board has received assurance from both the CEO and CFO that a system of risk management and internal control appropriate to the size and nature of the organisation is in place and is operating effectively in all material respects.

### *Principle 8: Remunerate fairly and responsibly*

The Company established a Remuneration Committee during the year. It met for the first time in June 2011. Prior to its establishment the directors of the full board collectively performed the functions of a remuneration committee. The Remuneration Committee Charter is published on the Company website.

The members of the Remuneration Committee are Mr Andrew Barlow (Chair), Mr Chris Morris and Mr Adrian Giles. The committee meets the ASX principles by having at least three members, however it is not chaired by an independent director, nor are a majority of its members independent. Despite this the Board believe the composition of this Remuneration Committee operates effectively. The directors have access to professional advisors who provide advice and assistance as requested by the directors.

The non-executive directors and the executive directors and senior management of the company have clearly distinguishable remuneration structures which are set out in documented service agreements. Full remuneration details for directors and key executives are provided in the director's report and the notes to the annual financial statements in this annual report.

## Shareholder Information

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 23 August 2011.

### Distribution of equity securities

|                                                                                 | Ordinary Shares   |                    | Options           |                   |
|---------------------------------------------------------------------------------|-------------------|--------------------|-------------------|-------------------|
|                                                                                 | Number of Holders | Number of Shares   | Number of Holders | Number of Options |
| The number of shareholders by size of shareholding in each class of shares are: |                   |                    |                   |                   |
| 1 – 1,000                                                                       | 109               | 13,846             | -                 | -                 |
| 1,001 – 5,000                                                                   | 268               | 849,917            | -                 | -                 |
| 5,001 – 10,000                                                                  | 345               | 2,791,628          | -                 | -                 |
| 10,001 – 100,000                                                                | 1,144             | 47,752,750         | -                 | -                 |
| 100,001 +                                                                       | 765               | 626,654,395        | 17                | 74,689,592        |
| <b>TOTAL</b>                                                                    | <b>2,631</b>      | <b>678,062,536</b> |                   |                   |

The number of shareholders holding less than a marketable parcel of shares (7,143 shares):

498 1,601,508

### Twenty largest shareholders

#### Listed Ordinary Shares

The names of the twenty largest holders of quoted shares are:

|                                                                            | Number of Shares   | % of Shares  |
|----------------------------------------------------------------------------|--------------------|--------------|
| 1 VENTURIAN PTY LTD <MAVERICK INNOVATION A/C>                              | 56,492,031         | 8.33         |
| 2 FINICO PTY LIMITED                                                       | 55,148,796         | 8.13         |
| 3 OVERACHIEVE PTY LTD <OVERACHIEVE A/C NO 1>                               | 27,530,041         | 4.06         |
| 4 ANDAMA HOLDINGS PTY LTD <J & M BARLOW PENSION A/C>                       | 13,434,659         | 1.98         |
| 5 MR ANTHONY DU PREEZ + MRS GEORGINA DU PREEZ <DU PREEZ FAMILY A/C>        | 12,968,051         | 1.91         |
| 6 UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD                         | 11,578,066         | 1.71         |
| 7 IMAGE DIGITAL PUBLICATIONS (VICTORIA) PTY LTD                            | 10,909,091         | 1.61         |
| 8 YARRA VENTURES PTY LTD <GILES SHARE A/C>                                 | 8,706,577          | 1.28         |
| 9 KHALON PTY LIMITED                                                       | 7,990,330          | 1.18         |
| 10 PHILIP MURPHY INVESTMENTS PTY LTD <P & J MURPHY S/F A/C>                | 7,110,222          | 1.05         |
| 11 K PAGNIN PTY LTD <K PAGNIN FAMILY A/C>                                  | 7,000,000          | 1.03         |
| 12 GPS NOMINATOR PTY LTD <PETER SIMPSON FAMILY A/C>                        | 6,897,455          | 1.02         |
| 13 D PAGNIN PTY LTD <D PAGNIN FAMILY A/C>                                  | 6,000,000          | 0.88         |
| 14 KEO PROJECTS PTY LTD <KEO PROJECTS P/L S/F A/C>                         | 5,829,670          | 0.86         |
| 15 YARRA VENTURES PTY LTD <GILES SHARE A/C>                                | 5,569,629          | 0.82         |
| 16 ALCATT PTY LTD <TRUSTCAT INVESTMENT A/C>                                | 5,487,858          | 0.81         |
| 17 RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C> | 5,398,308          | 0.80         |
| 18 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED                               | 5,313,742          | 0.78         |
| 19 CAPITAL ACCRETION PTY LTD <THE FORTIFIED VALUE A/C>                     | 5,115,384          | 0.75         |
| 20 COTU INVESTMENTS PTY LTD <COTU SUPER FUND A/C>                          | 5,100,000          | 0.75         |
| <b>Total Top 20 holders of Ordinary Shares</b>                             | <b>268,579,910</b> | <b>39.76</b> |
| <b>Remaining holders balance</b>                                           | <b>408,482,626</b> | <b>60.24</b> |

### Classes of Shares

Webfirm Group Limited has only class of share on issue, being fully paid ordinary shares.

### Substantial Shareholders

|               | Shares     | % Shares |
|---------------|------------|----------|
| Chris Morris  | 57,130,848 | 8.4%     |
| Andrew Barlow | 57,140,133 | 8.4%     |

### Voting Rights

All ordinary shares carry one vote per share without restrictions.

## Corporate Directory

### Directors

Mr Adrian Giles – Executive Chairman  
Mr David Burden – CEO/Managing Director  
Mr Andrew Barlow – Executive Director  
Mr Anthony Du Preez – Executive Director  
Mr Chris Morris – Non-Executive Director  
Ms Tiffany Fuller – Non-Executive Director

### Chief Executive Officer

Mr David Burden

### Company Secretary

Mr Brendan Maher

### Head Office

Webfirm Group Limited  
Level 2, 85 Coventry Street  
South Melbourne Vic 3205 Australia  
Phone: + 61 3 8695 9199  
Fax: + 61 3 9696 0700  
Toll free 1300 852 722

### Registered Office

Webfirm Group Limited  
Level 2, 85 Coventry Street  
South Melbourne Vic 3205 Australia  
Phone: + 61 3 8695 9199  
Fax: + 61 3 9696 0700  
Toll free 1300 852 722

### Auditors

BDO Audit (NSW-VIC) Pty Ltd  
The Rialto  
Level 30, 525 Collins Street  
MELBOURNE VIC 3000

### Solicitors

Minter Ellison  
Level 23, 525 Collins Street  
Melbourne VIC 3000

### Bankers

National Australia Bank Limited  
424 St Kilda Road  
St Kilda VIC 3004

### Share Register

Computershare Registry Services Pty Ltd  
Yarra Falls  
452 Johnston Street  
Abbotsford, VIC 3001

### Home Stock Exchange

Australian Stock Exchange Limited  
Level 45, South Tower  
Rialto, 525 Collins St  
Melbourne, VIC 3000  
ASX Code: WFM