

Freelancer Group
Financial report for the Year ended 31 December 2010

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Freelancer Group

Directors Report

The directors of the Freelancer Group submit herewith the annual financial report of the aggregated group for the financial year ended 31 December 2010.

Directors

The names of the directors of the group during the year and to the date of this report are:

Robert Matthew Barrie

Darren Williams

Simon Clausen

Directors have been in office of Freelancer International Pty Limited since the start of the financial year to the date of this report. On 10 February 2010, Robert Matthew Barrie, Darren Williams and Simon Clausen also became directors of Freelancer Holdings Pty Limited and have been in office until the date of this report.

Principal Activities

The principal activity of the aggregated group during the financial year was the provision of an online outsourcing marketplace. No significant changes in the nature of the aggregated group's activity occurred during the financial year.

Operating Results

The net profit (loss) of the aggregated group for the financial year after providing for income tax amounted to \$554,728 (2009: loss of \$529,202)

Dividends Paid or Recommended

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

Review of Operations

A review of operations of the aggregated group during the financial year indicated that the aggregated group incurred a profit after taxation of \$554,728 compared to a loss of \$529,202 in 2009. This increase in profitability is primarily due to a significant increase in operating revenues of approximately 135%, which was as a result of increased sales and marketing activities as well as continued improvements to the group's service offering.

The group also significantly increased the inflow of funds from its users, which totaled \$25,632,347 (2009: \$14,857,458)

Significant Changes in State of Affairs

On 8 April 2010, the Company redeemed 5,366 convertible notes for \$536,600 and paid all interest owing on the convertible notes amounting to \$463,380.

On 8 April 2010, the Company converted the remaining 25,526 convertible notes to 6,381,500 series A preference shares.

On 8 April 2010, a restructure of the ownership of the aggregated Group was completed, so that Freelancer International Pty Limited became a wholly owned subsidiary of Freelancer Holdings Pty Limited, which was incorporated on 10 February 2010.

No other significant changes in the aggregated group's state of affairs occurred during the financial year.

After Balance Date Events

There are no matters or circumstances that have arisen since 31 December 2010 that have significantly affected, or may significantly affect:

- The Group's operations in the future financial years, or
- The results of those operations in future financial years, or
- The Group's state of affairs in the future financial affairs.

Future Developments

The Group expects to maintain the present status and level of operations and hence there are no likely developments in the aggregated group's operations.

Environmental Issues

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Options

No options over issued shares or interests in the aggregated group were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

Indemnifying Officers or Auditor

During or since the end of the financial year, the aggregated group has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

Freelancer Group

Directors Report

The aggregated group has paid premiums to insure all of the directors of the aggregated group as named above and all executive officers of the aggregated group against any liability incurred as such by a director or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Proceedings on Behalf of the Entity

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the year.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under s307C of the Corporations Act 2001 is set out on page 5.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors



Robert Matthew Barrie

Director

Dated this 13th day of December 2011

Freelancer Group

Directors' Declaration

For the year ended 31 December 2010

The directors have determined that the Group is not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies outlined in Note 1 to the financial statements.

The directors of the Group hereby declare that:

1. The financial statements and notes, as set out on pages 6 to 21 in accordance with the Corporations Act 2001 and:
 - a. comply with Accounting Standards; and
 - b. give a true and fair view of the financial position as at 31 December 2010 and of the performance for the year ended on that date in accordance with the accounting policies described in Note 1 to the financial statements.
2. In the directors opinion there are reasonable grounds to believe that the Group will be able to pay their debts as and when they become due and payable.

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

On behalf of the Directors



Robert Matthew Barrie
Director

Dated this 13th day of December 2011

FREELANCER GROUP

AUDITOR'S INDEPENDENCE DECLARATION TO THE MEMBERS OF FREELANCER GROUP

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2010 there have been:

- i. no contraventions of the auditor's independence requirements; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

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DREW TOWNSEND
Partner
Date: 13 December 2011

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Chartered Accountants and Business Advisers
Operating under the Australian Accounting and Auditing Professional Standards (legislation)

Freelancer Group

Statement of Financial Position as at 31 December 2010

	Note	2010 S	2009 S
ASSETS			
Current assets			
Cash and cash equivalents	3	3,635,262	4,385,084
Trade and other receivables	4	63,506	23,004
Other current assets	5	68,182	23,007
Total current assets		3,766,950	4,431,095
Non-current assets			
Plant and equipment	6	142,808	28,226
Intangibles	7	4,394,552	3,330,143
Deferred tax assets	8	59,474	45,127
Total non-current assets		4,596,834	3,403,496
Total assets		8,363,784	7,834,591
LIABILITIES			
Current liabilities			
Trade and other payables	9	5,148,181	4,511,154
Borrowings	10	-	308,498
Provisions	11	108,412	61,214
Current tax liabilities	8	29,496	24,530
Total current liabilities		5,286,089	4,905,396
Non-current liabilities			
Borrowings	10	-	3,089,200
Deferred tax liabilities	8	145,310	-
Total non-current liabilities		145,310	3,089,200
Total liabilities		5,431,399	7,994,596
Net Assets (Liabilities)		2,932,385	(160,005)
Equity			
Issued capital	12	2,924,600	372,000
Reserves	13	(17,741)	(2,803)
Retained Earnings/ (Accumulated losses)		25,526	(529,202)
Total Equity (deficit)		2,932,385	(160,005)

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

Freelancer Group

Statement of Comprehensive Income for the year ended 31 December 2010

	Note	2010 \$	2009 \$
Revenue		4,701,715	1,982,585
Foreign Exchange gains (losses)		227,621	(27,489)
Transaction fees		(817,188)	(676,073)
Consultants & Contractors		(465,363)	(498,135)
Depreciation and amortisation expenses		(15,167)	(28,564)
Finance costs		(154,920)	(308,498)
Employee benefits expense		(1,117,348)	(333,859)
Legal and professional fees		(185,951)	(233,011)
Hosting fees		(279,760)	(97,944)
Sales and marketing costs		(595,419)	(81,935)
Occupancy		(119,845)	(15,990)
Other expenses		(469,217)	(216,696)
Profit/(Loss) before income tax	2	709,158	(535,609)
Income tax (expense)/benefit	15	(154,430)	6,407
Profit/(Loss) from continuing operations		554,728	(529,202)
Profit/(Loss) for the year from discontinued operations after tax		-	-
Profit/(Loss) for the year		554,728	(529,202)
Other comprehensive income			
- loss on currency translation of foreign entities		(14,938)	(2,803)
Total comprehensive income attributable to the members of the Group		539,790	(532,005)

The accompanying notes are an integral part of these financial statements.

Freelancer Group

Statement of changes in equity for the year ended 31 December 2010

Group	Note	Ordinary Shares	Preference Shares	Accumulated losses	Foreign Currency Translation Reserve	Total
		\$	\$	\$	\$	\$
Balance at beginning of reporting period		-	-	-	-	-
Shares issued during the period	12	372,000	-	-	-	372,000
Loss attributable to members of parent entity		-	-	(529,202)	-	(529,202)
Adjustments from translation of foreign operations		-	-	-	(2,803)	(2,803)
Balance at 31 December 2009		372,000	-	(529,202)	(2,803)	(160,005)
Balance at 1 January 2010		372,000	-	(529,202)	(2,803)	(160,005)
Shares issued during the year			2,552,600			2,552,600
Profit attributable to members of parent entity				554,728		554,728
Adjustments from translation of foreign operations					(14,938)	(14,938)
Balance at 31 December 2010		372,000	2,552,600	25,526	(17,741)	2,932,385

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

Freelancer Group

Consolidated Statement of cash flows for the year ended 31 December 2010

	Note	2010 S	2009 S
Cash flows from operating activities			
Receipts from customers.		4,881,486	1,909,078
Payments to suppliers and employees		(3,355,654)	(1,693,552)
Interest received		7,049	18
Interest paid		(154,920)	-
Income tax paid		(18,501)	(27,004)
Net cash provided by operating activities	19	<u>1,359,460</u>	<u>188,540</u>
Cash flows from investing activities			
Payment for purchase of entities	17	-	(2,960,331)
Purchase of intangible assets		(1,064,409)	(432,749)
Payment of security deposits		(55,387)	(6,481)
Purchase of plant and equipment		(129,749)	(11,806)
Net cash used in investing activities		<u>(1,249,545)</u>	<u>(3,411,367)</u>
Cash flows from financing activities			
Proceeds from issue of shares		-	95,000
Repayment from/(loans to) to related parties		299	(12,183)
Proceeds from issue of convertible notes		-	3,089,200
Repayment of convertible notes and interest		(845,098)	-
Net cash provided by financing activities		<u>(844,799)</u>	<u>3,172,017</u>
Net (decrease) increase in cash		(734,884)	(50,810)
Cash at the beginning of financial year		4,385,084	-
Cash acquired on acquisition of subsidiaries		-	4,435,894
Effect of exchange rate fluctuations		<u>(14,938)</u>	<u>-</u>
Cash at end of financial year		<u>3,635,262</u>	<u>4,385,084</u>

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

Freelancer Group

Notes to the financial statements for the year ended 31 December 2010

Note 1 Summary of significant accounting policies

The directors have prepared the financial statements on the basis that the Group is a non-reporting entity because there are no users dependent on general purpose financial statements. The financial statements are therefore special purpose financial statements that have been prepared in order to meet the needs of members.

The financial statements have been prepared in accordance with the significant accounting policies disclosed below, which the directors have determined are appropriate to meet the needs of members. Such accounting policies are consistent with the previous period unless stated otherwise.

The financial statements have been prepared on an accruals basis and are based on historical costs unless otherwise stated in the notes.

The accounting policies that have been adopted in the preparation of the statements are as follows:

(a) Principles of Aggregation

The purpose of these special purpose financial statements is to aggregate all of the trading operations controlled by Robert Matthew Barrie as though they were a wholly owned group. All applicable inter-group eliminations have been included. The Freelancer Group includes the following entities:

2010

Company Name	Country of Incorporation	Company Registration Number or equivalent
Freelancer Holdings Pty Limited (incorporated on 10 February 2010)	Australia	ABN 66141959042
Freelancer International Pty Limited (formerly known as Freelancer Australia Pty Limited)	Australia	ABN 81134845748
Freelancer Technology Pty Limited (incorporated on 22 February 2010)	Australia	ABN 21142189759
Plendo Sweden AB	Sweden	556773-0568
Plendo Singapore Pte Limited (struck off on 3 May 2010)	Singapore	200808138W
Freemarket (Switzerland) GmbH (incorporated on 10 September 2010)	Switzerland	CH320.4.067.825-0
Freelancer Networks (Canada) Inc. (incorporated on 25 May 2010)	Canada	810374264BC0001
Freelancer.com Pte Ltd (incorporated on 25 October 2010)	Singapore	9RC0000306748
Freelancer Limited (incorporated on 2 July 2010)	Belize	95217

2009

Company Name	Country of Incorporation	Company Registration Number or equivalent
Freelancer International Pty Limited (formerly known as Freelancer Australia Pty Limited)	Australia	ABN 81134845748
Plendo Sweden AB	Sweden	556773-0568
Plendo Singapore Pte Limited (struck off on 3 May 2010)	Singapore	200808138W

Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exceptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Freelancer Group

Notes to the financial statements for the year ended 31 December 2010 (continued)

(b) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit and loss is the tax payable on taxable income. Current tax liabilities (Assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax assets can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b), the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(c) Plant and Equipment

Plant and equipment are measured on a cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have not been discounted in determining recoverable amounts.

Freelancer Group

Notes to the financial statements for the year ended 31 December 2010 (continued)

(d) **Depreciation**

The depreciable amount of all fixed assets, is depreciated on a straight-line basis over the asset's useful life to the company commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Fixtures and fittings	20%
Motor vehicles	25%
Office and computer equipment	15%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are recognised immediately in the profit and loss. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

(e) **Intangibles**

Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities acquired at date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Domain Names

Domain names are valued at cost of acquisition. Domain names are tested annually for impairment where an indicator of impairment exists, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Trademarks

Trademarks are valued at cost of acquisition and are amortised on a straight line basis over the period in which the benefits are expected to be realised.

Trademarks are tested for impairment where an indicator of impairment exists, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

(f) **Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

(g) **Borrowing Costs**

All borrowing costs are recognised in income in the period in which they are incurred.

(h) **Provisions**

Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions recognised represent the best estimate of the amounts required to settle the obligation at reporting date.

(i) **Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Freelancer Group

Notes to the financial statements for the year ended 31 December 2010 (continued)

(j) Revenue and Other Income

The Company's net revenues result from transaction and other fees generated in its online outsourcing marketplace. Revenues are recognised when evidence of an arrangement exists, the fee is fixed and determinable, no significant obligation remains and collection of the receivable is reasonably assured.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

All revenue is stated net of the amount of goods and services tax (GST).

(k) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows.

(l) Research & Development

Costs relating to research and development of new software products are expensed as incurred until technological feasibility in the form of a working model has been established. At such time costs may be capitalised, subject to recoverability. Software development costs incurred subsequent to the establishment of technological feasibility have not been significant, and the Group has not capitalised any software development costs to date.

(m) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each group entity is measured using the currency of the primary economic environment in which that entity operates. The aggregated financial statements are presented in Australian dollars.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

Group Companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency is translated as follows:

- Assets and liabilities are translated at year end exchange rates prevailing at that reporting date.
- Income and expenses are translated at average exchange rates for the year.
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the profit or loss in the period in which the operation is disposed.

(n) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is recognised immediately in the profit and loss.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Freelancer Group

Notes to the financial statements for the year ended 31 December 2010 (continued)

(o) **Leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(p) **Comparative Figures**

Comparative figures have been adjusted to conform to changes in presentation for the current financial year where required by accounting standards or as a result of changes in accounting policy.

(q) **Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates – Impairment of intangible assets

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. During the year ended 31 December 2010, no impairment has been recognised in respect of intangible assets. The Group assessed recoverability of goodwill based on the present value cash flow projections over a 5 year period. Should any of the controlled entities fail to perform, an impairment loss would be recognised up to the maximum carrying value of intangible assets at 31 December 2010 of \$4,394,552 (2009: \$3,330,143).

(r) **Adoption of New and Revised Accounting Standards**

During the current year, the Group adopted the following revised Australian Accounting Standards to the extent they affect the mandatory Australian Accounting Standards applicable to entities reporting under the *Corporations Act 2001*.

AASB 2009–5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

This Standard made amendments to various AASB Standards including AASB 101: Presentation of Financial Statements and AASB 107: Statement of Cash Flows.

The amendments to some Standards resulted in accounting changes for presentation, recognition or measurement purposes, while some amendments only related to terminology and editorial changes. The following principal amendments are considered to be applicable to the company, although these changes are not expected to materially affect the company's financial statements.

AASB 101 Current/non-current classification of convertible instruments:

Under this amendment, in classifying a liability as current because the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period, if there are terms that could result in its settlement by issuing equity instruments (at the option of the counterparty), those terms do not affect the liability's classification.

AASB 107 Classification of expenditures on unrecognised assets:

Under this amendment, in classifying cash flows arising from investing activities, only those expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities.

(s) **New Accounting Standards for Application in Future Periods**

The Australian Accounting Standards Board has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the company has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors and AASB 1031: Materiality. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

Freelancer Group

Notes to the financial statements for the year ended 31 December 2010 (continued)

New Accounting Standards for Application in Future Periods (continued)

AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard details numerous non-urgent but necessary changes to various Accounting Standards, including AASB 101 and AASB 108, arising from the IASB's annual improvements project. These changes are not expected to have a major impact on the presentation of the company's financial report. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements; and
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes

AASB 2010-5: Amendments to Australian Accounting Standards (October 2010) [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including AASB 101 and AASB 107. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

Note 2 Profit/ (Loss) before income tax

	2010	2009
	\$	\$
Loss before income tax includes the following specific items:		
a. Expenses		
Depreciation of plant and equipment	15,167	768
Amortisation of domain names	-	27,796
Remuneration of auditor		
- Audit	31,467	24,802
Foreign exchange losses	-	30,735
b. Revenue		
Foreign exchange gains	227,621	-
c. Significant Expenses		
The following significant expenses items are relevant in explaining the financial performance:		
Bad debts	25,097	206,394
Provision for user disputes and user refunds	-	54,138

Note 3 Cash and cash equivalents

Cash at bank	1,633,741	4,365,084
Term deposits	2,001,521	20,000
	<u>3,635,262</u>	<u>4,385,084</u>

- (a) Included in cash and cash equivalents is an amount of \$20,000 on term deposit, which may be set-off at any time, in any way, and without notice against corporate credit card facilities in place.

Freelancer Group

Notes to the financial statements for the year ended 31 December 2010 (continued)

Note 4 Trade and other receivables

	2010	2009
	S	S
Other receivables	51,623	10,821
Loan to related parties – unsecured	11,883	12,183
	<u>63,506</u>	<u>23,004</u>

Note 5 Other current assets

Prepayments	6,314	16,526
Security deposits	61,868	6,481
	<u>68,182</u>	<u>23,007</u>

Note 6 Plant and equipment

Fixtures and fittings at cost	39,357	11,573
Less: accumulated depreciation	(5,555)	(150)
Total Fixtures and fittings	<u>33,802</u>	<u>11,423</u>
Office and computer equipment at cost	75,672	17,162
Less: accumulated depreciation	(6,250)	(359)
Total Office and computer equipment	<u>69,422</u>	<u>16,803</u>
Motor Vehicles at cost	42,409	-
Less: accumulated depreciation	(2,825)	-
	<u>39,584</u>	<u>-</u>
Total plant and equipment	<u>142,808</u>	<u>28,226</u>

Note 7 Intangibles

Software at cost	3,070	1,224
Less: accumulated depreciation	(1,306)	(259)
Total software	<u>1,764</u>	<u>965</u>
Trademarks at cost	240	240
Less: amortisation	-	-
Trademarks - net carrying amount	<u>240</u>	<u>240</u>
Domain names, at cost	1,467,099	431,285
Less: amortisation	-	(27,796)
Domain names - net carrying amount	<u>1,467,099</u>	<u>403,489</u>
Goodwill (refer note 17)	2,925,449	2,925,449
Less: impairment provision	-	-
Goodwill - net carrying amount	<u>2,925,449</u>	<u>2,925,449</u>
Total intangibles, net carrying amount	<u>4,394,552</u>	<u>3,330,143</u>

- a. In 2010 the Group changed its accounting policy in respect of amortisation of domain name. In 2009 the Group amortised domain names on a straight line basis over 4 years in which the benefits are expected to be realised. The directors have determined the useful life of domain names is indefinite and subject to an annual test for impairment of the fair value of the domain names. The change of this accounting policy does not have any impact on comparatives.

The amount of amortisation charged to the profit and loss in 2009 amounted to S 27,796 and no impairment in 2010.

Freelancer Group

Notes to the financial statements for the year ended 31 December 2010 (continued)

Note 8 Tax

	2010 \$	2009 \$
Assets		
Non - Current		
Deferred tax assets	59,474	45,217
Liabilities		
Current		
Income tax	29,496	24,530
Non - Current		
Deferred tax liabilities	145,310	-

Note 9 Trade and Other Payables

Trade payables	124,447	20,661
Sundry payables and accrued expenses	106,262	73,127
Customer balances	4,917,472	4,417,366
	<u>5,148,181</u>	<u>4,511,154</u>

Note 10 Borrowings

Current		
Interest payable on convertible notes – secured	-	308,498
	-	<u>308,498</u>
Non Current		
Convertible notes – secured	-	3,089,200
	-	<u>3,089,200</u>

On 8 April 2010, the Company redeemed 5,366 convertible notes for \$536,600 and paid all interest owing on the convertible notes amounting to \$463,380.

On 8 April 2010, the Company converted the remaining 25,526 convertible notes to 6,381,500 series A preference shares.

Interest on the convertible notes was payable at an interest rate of 15% per annum on the face value of the notes. Any unpaid interest was capitalised and was also subject to interest at 15% per annum was until such time as it was paid.

Note 11 Provisions

Current		
Employee benefits	54,273	7,075
Provision for user disputes and refunds	54,139	54,139
	<u>108,412</u>	<u>61,214</u>

Note 12 Issued Capital

8,818,001 fully paid ordinary shares	372,000	372,000
6,381,501 (2009:1) fully paid preference shares	2,552,600	-
	<u>2,924,600</u>	<u>372,000</u>

(a) Ordinary Shares

Ordinary shares participate in dividends and the proceeds on winding up in proportion to the number of the shares held.

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

Freelancer Group

Notes to the financial statements for the year ended 31 December 2010 (continued)

Note 12 Issued Capital (continued)

(b) Series A Preference Shares

Series A preference shares are not redeemable and the Series A preference share holders have the same right as the ordinary shareholder at the shareholders' meeting.

Series A preference share holders have the right, at any time, to convert Series A preference share into a number of fully paid ordinary shares calculated in accordance with the Constitution.

If a Target Realisation Event occurs, all of the Series A preference shares will, just prior to the implementation of the Target Realisation Event, be converted into a number of fully paid ordinary share in accordance with the Constitution.

In the event of an issue of shares or other securities in the capital at a price less than the issue price for a Series A preference share or at a price less than any previously adjusted conversion price calculated in accordance with the Constitution whether by way of new issue or exercise of options or other convertible securities, the conversion price for the Series A preference share shall be adjusted in accordance with the Constitution.

(c) Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the members with adequate returns and to ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group during the year.

Note 13 Reserves

	2010	2009
	\$	\$
Foreign Currency Translation Reserve		
The foreign currency translation reserve records exchange differences arising on translation of foreign controlled entities.	17,741	2,803
	<u>17,741</u>	<u>2,803</u>

Note 14 Lease Commitments

Operating Lease Commitments

Non-cancellable operating lease commitments not capitalised in the financial statements:

Payable - minimum lease payments

not later than 12 months

between 12 months and five years

130,485	27,710
<u>41,134</u>	-
<u>171,619</u>	<u>27,710</u>

Note 15 Income Tax Expense

(a) The components of income tax expense comprise:

Current tax

Deferred tax

Deferred tax asset not recognised (temporary)

23,466	38,720
130,964	(138,901)
-	93,774
<u>154,430</u>	<u>(6,407)</u>

Freelancer Group

Notes to the financial statements for the year ended 31 December 2010 (continued)

Note 15 Income Tax Expense (Continued)

	2010 S	2009 S
(b) The prima facie tax on profit/(loss) from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit/(loss) from ordinary activities before income tax at 30%	212,748	(160,683)
Add:		
Tax effect of:		
- Other assessable income		
- Other non-allowable items	271,677	6,046
- Shares issued in lieu of payment for services provided and expensed during the year	-	83,100
Less:		
- Tax effect of:		
- R&D tax concession	(327,843)	(21,666)
- Difference in tax rate	(2,696)	(6,738)
- Non tax effect foreign income	-	(240)
- Deferred tax asset not recognised (temporary)	544	93,774
Income tax expense/ (benefit)	<u>154,430</u>	<u>(6,407)</u>

Note 16 Contingent liabilities

A collateral amount of USD 100,000 is in place in one of the Group's Paypal accounts in favour of Paypal.

Except for the contingent liabilities listed above, there are no other contingent liabilities as at 31 December 2010.

Note 17 Business Combinations

On 8 May 2009 the Group completed the purchase of 100% of the issued share capital of Plendo Sweden AB, inclusive of Plendo Sweden's 100% owned subsidiary Plendo Singapore Pte Limited. This was effected as follows:

Purchase by the Company 1,000 shares of Plendo Sweden AB 2,960,331

Details of the net assets acquired are as follows:

Cash	4,435,894
Receivables	14,840
Customer deposits	(4,411,162)
Payables	(21,619)
Other current assets- financial assets	16,929
Fair value of net assets acquired	<u>34,882</u>
Goodwill on acquisition	<u>2,925,449</u>
Total purchase consideration	<u>2,960,331</u>

The results of operations of Plendo Sweden AB have been included in the combined entity's statement of financial performance for the period 8 May 2009 to 31 December, 2009.

Note 18 Events after the balance sheet date

There are no matters or circumstances that have arisen since 31 December 2010 that have significantly affected, or may significantly affect:

- The group's operations in the future financial years, or
- The results of those operations in future financial years, or
- The group's state of affairs in the future financial affairs.

Freelancer Group

Notes to the financial statements for the year ended 31 December 2010 (continued)

Note 19 Cash Flow Information

	2010	2009
	S	S
a. Reconciliation of Cash Flow from operations with loss after tax		
Profit (Loss) after tax	554,728	(529,202)
Non cash flows in loss:		
Finance costs on convertible note	-	308,498
Depreciation and amortisation	15,167	28,564
Share based payments	-	277,000
Changes in operating assets and liabilities, net of the effects of purchase of subsidiaries		
(Increase)/Decrease in trade and other receivables	(40,802)	4,019
Increase in deferred tax assets	(14,347)	(45,127)
Decrease/(Increase) in prepayments	10,212	(16,526)
Increase in trade and other payables	637,028	75,570
Increase in provision for income tax	4,966	24,530
Increase in deferred tax	145,310	-
Increase in employee provisions	47,198	7,075
Increase in other provisions	-	54,139
Cash flow from operations	<u>1,359,460</u>	<u>188,540</u>

Note 20 Discontinued Operations

On 3 May 2010, Plendo Singapore Pte Limited has been struck off.

	2010	2009
	S	S
a. Financial Performance Information		
Financial performance information in relation to discontinued operations as described above.		
Revenue	-	-
Expenses	-	-
Net profit/(loss) before income tax	-	-
Income tax expense/(credit)	-	-
Profit/(loss) after income tax	-	-
Loss on deconsolidation	-	-
Profit/(loss) after income tax from discontinued operations	<u>-</u>	<u>-</u>
b. Cash Flow Information		
Cash flow information in relation to discontinued operations as described above.		
Net cash flow from operating activities	-	-
Net cash flow from investing activities	-	-
Net cash flow from financing activities	-	-
	<u>-</u>	<u>-</u>
c. Net Carrying Amount of Assets / (Liabilities) at date of disposal		
Net carrying amount of assets / (liabilities) at date of disposal	-	-
Proceed on disposal	-	-
Gain/(loss) in disposal	<u>-</u>	<u>-</u>

Freelancer Group

Notes to the financial statements for the year ended 31 December 2010 (continued)

Note 21 Company Details

The registered office of the company is:

Freelancer Holdings Pty Limited
Suite 501, 35 Lime Street, Sydney, NSW, 2000

The principal place of business is:

Freelancer Holdings Pty Limited
Suite 501, 35 Lime Street, Sydney, NSW, 2000

FREELANCER GROUP

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FREELANCER GROUP

We have audited the accompanying financial report, being a special purpose financial report of Freelancer Group which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and 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.

Directors' Responsibility for the Financial Report

The directors of the Group are responsible for the preparation of the financial report and have determined that the accounting policies described in Note 1 of the financial report are appropriate to meet the requirements of the Group's Constitution and are appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We have 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 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 judgment, 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 Group'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 Australian professional ethical pronouncements.

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Freelancer Group is a company registered in Australia under the Corporations Act 2001.

FREELANCER GROUP

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
FREELANCER GROUP**

Opinion

In our opinion, the financial report presented fairly, in all material respects the financial position of Freelancer Group as at 31 December 2010 and of its performance for the year ended on that date in accordance with the accounting policies in Note 1 to the financial report.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the Group's constitution. As a result, the financial report may not be suitable for another purpose.

Hall Chadwick
Level 29, 31 Market Street
Sydney, NSW 2000



DREW TOWNSEND
Partner
Date: 13 December 2011

