

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	30 June 2012
Previous Corresponding Period	Financial Year ended	30 June 2011

The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities (Appendix 4E item 2.1)

Revenue from ordinary activities	\$	5,341,598
Previous corresponding period	\$	5,424,746
Percentage change up or down from the previous corresponding period of revenue from ordinary activities	%	(1.53%)

The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members (Appendix 4E item 2.2)

Loss from ordinary activities after tax	\$	(7,331,658)
Previous corresponding period	\$	(10,341,829)
Percentage change up or down from the previous corresponding period of loss from ordinary activities after tax attributable to members	%	29.11%

The amount and percentage change up or down from the previous corresponding period of net profit (loss) for the period attributable to members (Appendix 4E item 2.3).

Profit (loss) attributable to members	\$	(7,331,658)
Previous corresponding period	\$	(10,341,829)
Percentage change up or down from the previous corresponding period of net loss for the period attributable to members	%	29.11%

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 (Appendix 4E items 2.4 and 2.5).

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	1.93
Previous Corresponding Period	cents	2.52

Explanations of income (Appendix 4E item 2.6)

Current year income is down \$83,148 from the previous corresponding period. The reduction in revenue relates to lower revenue from the Webfirm division arising from its decision to exit the highly competitive web-site creation business and focus primarily on online marketing services. Webfirm revenues were down \$700,335. Offsetting this was the recording of \$659,000 in research & development grants receivable relating to the Adslot division.



Explanations of profit/(loss) from ordinary activities and net profit/(loss) after tax attributable to members (Appendix 4E item 2.6)

The current reporting period loss after tax of \$7,331,658 is a decrease of \$3,010,171 from the previous corresponding period. The reduction is mainly due to the \$2.5m write off of goodwill in the previous corresponding period. While the Webfirm division had significant reductions in operating expenses in FY 12 relating to the exit of web-site creation business and resulting in that division being profitable for the year, these lower costs were offset by increased Adslot division operating costs associated with the development of Adslot Create and Adslot Direct product and the establishment of office in the United Kingdom.

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 2012

CONTENTS	Page
Directors' Report	4
Remuneration Report	10
Auditors Independence Declaration	19
Consolidated Statement of Comprehensive Income	20
Consolidated Statement of Financial Position	21
Consolidated Statement of Changes in Equity	22
Consolidated Statement of Cash Flows	23
Notes to the Financial Statements	24
Directors' Declaration	70
Independent Audit Report to the Members	71
Corporate Governance Information	74
Shareholder Information	77
Corporate Directory	78

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 2012 and the auditor's report thereon.

Information on Directors

Mr Adrian Giles, Mr Andrew Barlow, Mr Chris Morris and Ms Tiffany Fuller were directors for the whole financial year and up to the date of this report.

Mr David Burden resigned from his appointment as managing director and chief executive officer on 30 August 2011.

Mr Andrew Barlow was appointed as acting chief executive officer commencing 30 August 2011.

Mr Anthony Du Preez resigned from his appointment as an executive director on 30 March 2012.

Mr Adrian Giles
Executive Chairman
(Age 38)

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 and
acting CEO
(Age 39)

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 Chris Morris
Non-Executive Director
(Age 64)

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 a 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 (ASX:CPZ).

Ms Tiffany Fuller
Non-Executive Director
(Age 42)

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 (ASX:CPZ).

Mr Brendan Maher
Company Secretary
(Age 44)

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 (ASX:SKE) prior to joining Webfirm.

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 4 to 5 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 shares or options in shares of the Company as at the date of this report.

Directors	Ordinary Shares	Share Options
	#	#
Mr Adrian Giles	18,421,288	11,800,000
Mr Andrew Barlow	57,140,133	7,900,000
Mr Chris Morris	62,739,318	-
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 sell their premium advertising inventory directly to advertisers via a self-serve channel, increasing yield and significantly reducing sales and administration costs; and

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

Operating results

The consolidated operating loss after income tax attributable to the members of Webfirm Group Limited is \$7,331,658 (2011: Loss \$10,341,829).

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 prior year, the Company made the decision to exit the highly competitive website creation business and focus primarily on online marketing services including, search engine optimisation, paid search marketing, social marketing, website hosting, non-bespoke website builds and website amendments. The restructure was finalised in August 2011, and with the significantly reduced cost base, the division was able to be profitable for the remainder of the year.

During the year the Directors decided to undertake a strategic review of the Webfirm Division to determine the future strategy and focus for this division. The review included the potential sale of the division. Due to its renewed cash contribution to the business, the outcome of the review was to retain the business and continue with its new focus on Search Engine Marketing services.

Adslot Division

The Adslot Division provides advertising sales automation services that reduce selling costs and increase advertising revenue for its publisher clients. It was created via the acquisition of three core pieces of technology during 2010 (Adslot, QDC and Adimise).

In the financial year 2011, the Company used the technologies to provide bespoke yield optimisation solutions to major classifieds publishers in Australia and New Zealand.

This financial year, the Company launched Adslot Premium: a tool for online *classifieds* publishers to optimise the sales and yield of their premium *sponsorship* inventory to their *existing* advertisers. The Company signed four premium classifieds publishers across the real estate, travel and automotive industry verticals this year, after standardising the platform to enable reduced implementation timeframes for clients.

During the year, significant work also went into developing two new products: Adslot Direct and Adslot Create.

Adslot Direct allows any publisher (not just classifieds publishers) to sell premium advertising inventory via a direct, self-serve channel, significantly reducing sales and administration costs. Adslot Direct has undergone a successful private beta program with clients in Australia and the United States. The product is due for public beta release in the September quarter, 2012.

Adslot Create enables *advertisers* to quickly and easily build banner ads from a template, turning a process that usually takes weeks into one that takes only minutes. It will also allow publishers to create private stores with custom template libraries exclusively for their advertisers. Adslot Create's beta program commenced in July 2012 with a number of clients in Australia, the United Kingdom and the United States of America. The product is due for public release in the December quarter 2012.

In July 2012, our USA offices opened in San Francisco to facilitate our entry into that market with our product suite.

Corporate

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 1.5% on the previous year, to \$5.3 million primarily due to the exit of unprofitable web site development in the Webfirm division. The net loss after tax at \$7.3 million was a reduced loss as compared to FY11 primarily due to impairment write downs that were taken to account in FY11 in the Webfirm division.

This result included approximately \$2.9 million in non-cash losses consisting of \$2.7 million in depreciation and amortisation expenses (mostly relating to acquired intangibles relating to the Adslot division) and \$0.2 million of non-cash share based expenses.

Matters Subsequent to the end of the financial year

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 group, the results of those operations or the state of affairs of the group in future years.

Likely future developments and expected results

Disclosure of information regarding likely developments in the operations of group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the group. Accordingly, this information has not been disclosed in this report, other than the expected launch of our new products Adslot Direct (in the September 2012 quarter) and Adslot Create (in the December 2012 quarter).

Environmental regulations

The group'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:

Issue Type	Expiry Date	Exercise Price	Number under option
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	7,258,824
Options over ordinary shares	8 Jul 2014	\$0.151	2,000,000
Options over ordinary shares	30 Sep 2014	\$0.116	3,000,000
Options over ordinary shares	30 Sep 2014	\$0.190	300,000
Total			65,258,824

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

Class of Share	Number of shares issued	Amount paid per share	Amount unpaid per share
Ordinary options	1,480,000	\$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 2012 and the number of meetings attended by each Director.

Directors	Board of Directors		Remuneration Committee		Audit and Risk Committee	
	Held	Attended	Held	Attended	Held	Attended
Mr Adrian Giles	6	6	1	1	4	4
Mr Andrew Barlow	6	6	1	1	-	-
Mr David Burden	1	1	-	-	-	-
Mr Anthony Du Preez	4	2	-	-	-	-
Mr Chris Morris	6	5	1	1	4	3
Ms Tiffany Fuller	6	6	-	-	4	4

During the financial year 2012 all audit & risk matters have been attended to by the Audit & Risk Committee in consultation with the Company's auditors.

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 2012 has been received and can be found on page 19 of the financial report. Details of amounts paid or payable to the auditor for non-audit services provided during the year are outlined in note 22 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

BDO Audit (NSW-VIC) Pty Ltd amalgamated audit and non-audit services with Grant Thornton during the year under review. The Company has decided to continue services provided by Grant Thornton subject to approval by shareholders at the AGM.

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 its 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 to the Board.

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 long term prospects and future 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:

Directors	Position	Date appointed/resigned
Mr Andrew Barlow	Non-Executive Director Executive Director Acting Chief Executive Officer	Appointed 16 February 2010 From 13 April 2010 Appointed 30 August 2011
Mr Adrian Giles	Non-Executive Director Non-Executive Chairman Executive Chairman	Appointed 19 December 2007 From 8 October 2009 From 13 April 2010
Mr David Burden	Chief Executive Officer Managing Director	Appointed 6 February 2008 Resigned 30 August 2011 From 8 April 2008 Resigned 30 August 2011
Mr Anthony Du Preez	Executive Director	Appointed 22 February 2010 Resigned 30 March 2012
Mr Chris Morris	Non-Executive Director	Appointed 20 September 2010
Ms Tiffany Fuller	Non-Executive Director	Appointed 20 June 2011
Executive Officers		
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 Resigned 20 July 2011

Section 3: Details of remuneration (Continued)

Group 2012 Name	Short-term benefits			Long term benefits	Post- employment benefits	Share- based payment	Total \$	% of remuneration that consists of options & shares %
	Salary & fees \$	Bonus \$	Other \$	Termination benefits \$	Superannuation \$	Options, & rights ¹ \$		
<i>Executive directors</i>								
Mr A Giles	83,840	-	-	-	-	-	83,840	-
Mr A Barlow	321,959	-	-	-	-	-	321,959	-
Mr D Burden (i)	133,058	79,834	-	6,593	6,525	-	226,010	-
Mr A Du Preez (ii)	170,915	-	-	13,705	11,831	-	196,451	-
<i>Non-executive directors</i>								
Mr C Morris	50,000	-	-	-	-	-	50,000	-
Ms T Fuller	75,000	-	-	-	-	-	75,000	-
<i>Other key management personnel</i>								
Mr B Maher	255,121	24,000	-	-	15,775	6,365	301,261	2.1%
Mr M Chamley (iii)	12,113	-	-	30,062	2,163	2,030	46,368	4.4%
Totals	1,102,006	103,834	-	50,360	36,294	8,395	1,300,889	0.6%

¹ Shares issued to Mr B Maher under the Employee Share Option Scheme are in substance rights issues and have been treated as such in the remuneration table.

- (i) to 30 August 2011
- (ii) to 30 March 2012
- (iii) to 20 July 2011

Bonuses

Bonuses appearing in the table above were paid for the year ended 30 June 2012 as follows:

Name	Amount Paid \$	Amount available in future periods \$	Total Bonus Opportunity \$	Assessment Criteria
Mr D Burden	79,834	-	79,834	New client signings, client platform volumes, divisional performance
Mr B Maher	24,000	-	43,750	Reporting, Governance and other performance related KPI's

No portion of bonuses paid to key management personnel were forfeited.

Section 3: Details of remuneration (Continued)

Group 2011 Name	Short-term benefits			Long term benefits	Post- employment benefits	Share- based payment	Total \$	% of remuneration that consists of options %
	Salary & fees \$	Bonus \$	Other \$	Termination benefits \$	Superannuation \$	Options & rights \$		
<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%
Totals	1,160,973	101,001	35,760	19,584	58,454	437,574	1,813,346	24.1%

- (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

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.

Length of contract	Open ended
Fixed Remuneration	Remuneration comprises salary and statutory employer superannuation contributions.
Incentive Plans	Eligible to participate. Incentive criteria and award opportunities vary for each executive.
Notice Period	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.
Resignation	Employment may be terminated by giving notice consistent with the notice period.
Retirement	There are no financial entitlements due from the Company on retirement of an executive.
Termination by the Company	The Company may terminate the employment agreement by providing notice consistent with the notice period or payment in lieu of the notice period.
Redundancy	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.
Termination for serious misconduct	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.

In July 2010, the Board has ceased issuing options to eligible employees under the scheme, as it believes that options are no longer the most effective way to remunerate employees.

The Company obtained approval at the 2011 Annual General Meeting to establish an employee incentive scheme comprising the Webfirm Group Limited Share Option Plan and the Webfirm Group Employee Share Trust.

Shares are available to be issued to eligible employees based on the performance against agreed key performance indicators. Any shares issued to eligible employees will be held on Trust for two years. The two year period is a service period required to be met by the eligible employee and if this service period is not met, the shares will be forfeited by the eligible employee.

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

Name	ESOP Series	During the Financial year				% of Compensation for the year Consisting of Shares
		Number Granted	Number Vested	% of Grant Vested	% of Grant Forfeited	
Mr B Maher (i)	Accepted on 01 Dec 11	413,511	-	-	-	2.1%

(i) These shares were issued under the ESOP to Mr Brendan Maher under his Employment Agreement. The rights to these shares will vest on 30 November 2013. The Company has valued these rights to shares in accordance with accounting standards at \$21,916 of which \$6,365 was expensed this year.

REMUNERATION REPORT (Continued)

Section 5: Equity-based compensation (continued)

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

ESOP shares - 2012

Issue Date	Number of Shares	Vesting Date	Exercise Price \$	Value of shares at grant date	Fair Value Per Share \$	Date vested and exercisable
1-Dec-2011	413,511	30 Nov 2013	-	21,916	0.0530	-
				21,916		

Shares issued under the scheme will have voting and dividend rights, and the right to participate in further issues pro-rata to all ordinary shareholders. There is no Board policy in place to limit the executive employees' exposure to risk in relation to securities issued as remuneration.

The following options were granted to key management personnel during the prior 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
				344,700		

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	Shares/Options Granted During the Year				Shares/Options Vested During the Year			
	2012		2011		2012		2011	
	Number	\$	Number	\$	Number	\$	Number	\$
Directors								
Mr Adrian Giles	-	-	-	-	-	-	5,900,000	\$85,141
Mr David Burden (i)	-	-	-	-	-	-	6,500,000	\$93,799
Mr Andrew Barlow	-	-	-	-	-	-	3,950,000	\$57,001
Mr Chris Morris	-	-	-	-	-	-	-	-
Ms Tiffany Fuller	-	-	-	-	-	-	-	-
Mr Anthony Du Preez (ii)	-	-	-	-	-	-	4,250,000	\$61,330
Mr Adrian Vanzyl (iii)	-	-	-	-	-	-	3,500,000	\$50,507
Other Key Management Personnel								
Mr B Maher	413,511	\$21,916	-	-	-	-	-	-
Mr M Chamley (iv)	-	-	-	-	558,824	\$2,030	2,000,000	\$26,308
Mr G Flower (v)	-	-	3,000,000	\$344,700	-	-	309,589	\$32,015

- (i) to 30 August 2011
- (ii) to 30 March 2012
- (iii) to 20 June 2011
- (iv) to 20 July 2011
- (v) to 13 September 2010

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 ESOP shares granted during the year ended 30 June 2012 included:

Model Input	ESOP #1
Grant Date	01/12/11
Escrow End Date	30/11/13
Exercise Price	-
Price at Grant Date	\$0.053
Expected Volatility	45.0%
Expected Dividend Yield	0%
Risk Free Interest Rate	3.22%

REMUNERATION REPORT (Continued)

Section 5: Equity-based compensation (continued)

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 Grant Date	\$0.07
Expected Volatility	102.9%
Expected Dividend Yield	0%
Risk Free Interest Rate	4.80%

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

2012 Name	Balance at the start of the year (Number)	Granted during the year as compensation (Number)	Exercised during the year (Number)	Forfeited/ during the year (Number)	Lapsed during the year (Number)	Balance at the end of the year (Number)	Vested and exercisable at the year end (Number)
<i>Directors</i>							
Mr A Giles	13,800,001	-	-	-	(2,000,001)	11,800,000	11,800,000
Mr A Barlow	9,900,001	-	-	-	(2,000,001)	7,900,000	7,900,000
Mr D Burden	13,000,000	-	-	-	-	13,000,000	13,000,000
Mr A Du Preez	8,500,000	-	-	-	-	8,500,000	8,500,000
Mr C Morris	-	-	-	-	-	-	-
Ms T Fuller	-	-	-	-	-	-	-
Other key management personnel							
Mr B Maher	-	-	-	-	-	-	-
Mr M Chamley	4,000,000	-	(1,480,000) ¹	(1,441,176) ²	-	1,078,824	1,078,824
Totals	49,200,002	-	(1,480,000)	(1,441,176)	(4,000,002)	42,278,824	42,278,824

¹ The fair value of options exercised during the period was \$34,188.

² The fair value of options forfeited during the year was \$33,291

This marks the end of the audited remuneration report.

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



Adrian Giles
 Chairman

23 August 2012

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000
GPO Box 4736
Melbourne Victoria 3001
T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.granthornton.com.au

**Auditor's Independence Declaration
To the Directors of Webfirm Group Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Webfirm Group Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Michael Climpson

Michael Climpson
Partner - Audit & Assurance

Melbourne, 23 August 2012

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012

	Notes	2012 \$	2011 \$
Total revenue from continuing operations	3	4,682,469	5,348,965
Other income	3	659,129	75,781
Website publishers & related costs		(1,158,310)	(1,318,599)
Depreciation and amortisation expenses	4	(2,658,506)	(2,182,718)
Finance costs	4	-	(44)
Salaries and employment related costs		(5,504,663)	(4,682,391)
Consultancy and contractor costs		(587,591)	(446,501)
Directors' fees		(246,471)	(213,333)
Staff Recruitment		(202,238)	(138,541)
Telephone and internet		(114,231)	(175,268)
Share based payment expense		(211,045)	(822,835)
Marketing costs		(44,904)	(125,567)
Lease – rental premises	4	(377,231)	(584,281)
Impairment of intangibles	4	(50,000)	(2,749,184)
Impairment of receivables	4	(70,091)	(340,717)
Listing & registrar fees		(87,723)	(222,805)
Legal fees		(130,375)	(255,765)
Travel expenses		(222,029)	(404,052)
Audit and accountancy fees		(177,090)	(127,912)
Other expenses		(830,758)	(975,542)
Loss before income tax expense		(7,331,658)	(10,341,309)
Income tax expense	5	-	(520)
Loss after income tax expense		(7,331,658)	(10,341,829)
Other comprehensive income			
Foreign exchange translation		36,452	(44)
Revaluation of available for sale investments		-	106,335
Total other comprehensive income		36,452	106,291
Total comprehensive income attributable to the members of Webfirm Group Limited		(7,295,206)	(10,235,538)
		2012 Cents	2011 Cents
Earnings per share (EPS) from loss from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share	17	(1.08)	(1.66)
Diluted earnings per share	17	(1.08)	(1.66)

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 2012

	Notes	2012 \$	2011 \$
CURRENT ASSETS			
Cash and cash equivalents	7	13,746,124	18,352,609
Trade and other receivables	8	1,361,994	1,391,435
Total current assets		15,108,118	19,744,044
NON-CURRENT ASSETS			
Trade and other receivables	8	-	200,000
Property, plant & equipment	9	167,738	197,039
Other financial assets	10	212,664	212,664
Intangible assets	11	7,869,963	10,486,968
Total non-current assets		8,250,365	11,096,671
Total assets		23,358,483	30,840,715
CURRENT LIABILITIES			
Trade and other payables	12	1,015,805	1,470,270
Other liabilities	13	1,011,050	1,110,587
Provisions	14	174,727	164,603
Total current liabilities		2,201,582	2,745,460
NON-CURRENT LIABILITIES			
Provisions	14	26,294	6,884
Total non-current liabilities		26,294	6,884
Total liabilities		2,227,876	2,752,344
NET ASSETS		21,130,607	28,088,371
EQUITY			
Issued capital	15	76,674,272	76,547,875
Reserves	16	1,945,845	5,830,556
Accumulated losses		(57,489,510)	(54,290,060)
TOTAL EQUITY		21,130,607	28,088,371

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 2012

2012

	Notes	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total Equity \$
Balance at 1 July 2011		76,547,875	5,830,556	(54,290,060)	28,088,371
Movement in foreign exchange translation reserve	16	-	36,452	-	36,452
Increase in available for sale investment reserve	16	-	-	-	-
Other comprehensive income		-	36,452	-	36,452
Loss attributable to members of the company		-	-	(7,331,658)	(7,331,658)
Total comprehensive income		-	36,452	(7,331,658)	(7,295,206)
Transactions with equity holders in their capacity as equity holders					
Contributions of equity, net of transaction costs	15	259,413	-	-	259,413
Treasury shares	15	(133,016)	-	-	(133,016)
Reclassification of lapsed options to retained earnings	16	-	(4,132,208)	4,132,208	-
Increase in employees share based payments reserve	16	-	211,045	-	211,045
		126,397	(3,921,163)	4,132,208	337,442
Balance 30 June 2012		76,674,272	1,945,845	(57,489,510)	21,130,607

2011

	Notes	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total Equity \$
Balance at 1 July 2010		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)
Total comprehensive income		-	106,291	(10,341,829)	(10,235,538)
Transactions with equity holders in their capacity as equity holders					
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
Balance 30 June 2011		76,547,875	5,830,556	(54,290,060)	28,088,371

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 2012

	Notes	2012 \$	2011 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from trade and other debtors (inclusive of GST)		4,169,273	4,628,338
Interest received		1,154,422	903,194
Government grants and other receipts		-	75,781
Payments to trade creditors, other creditors and employees (inclusive of GST)		(10,020,116)	(9,599,365)
Interest paid		-	(44)
Net cash outflows from operating activities	25	(4,696,421)	(3,992,096)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(56,813)	(293,429)
Proceeds from sale of fixed assets		20,274	42,903
Net cash acquired via acquisition of subsidiary	19	-	108,344
Payments for intangible assets		(13,741)	(776,888)
Payments for available-for-sale financial assets		-	(106,329)
Net cash outflows from investing activities		(50,280)	(1,025,399)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		82,880	20,122,497
Payments for equity raising costs		-	(510,233)
Net cash inflows from financing activities		82,880	19,612,264
Net increase/(decrease) in cash held		(4,663,821)	14,594,769
Cash at the beginning of the financial year		18,352,609	3,807,779
Effects of exchange rate changes on cash		57,336	(49,939)
CASH AT THE END OF THE FINANCIAL YEAR	7	13,746,124	18,352,609

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 2012

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 2012 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 2011:

- AASB 124 *Related Parties/AASB 2009-12 Amendments to Australian Accounting Standards*
- AASB 2009-14 *Amendments to Australian Interpretations – Prepayments of Minimum Funding Requirements (Interpretation 14)*
- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvement Project and*
- AASB 2010-5 *Amendments to Australian Accounting Standards*
- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures in Transfers of Financial Assets*
- AASB 1054 *Additional Australian Disclosures*
- AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence 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 2012

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 \$4.7m 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 FY 2012 Adslot earned revenues from its first five clients on the Adslot Premium platform. During FY 2013 the Group expects more clients to be signed up on the Adslot Premium product in addition to new revenues from the launch of Adslot Direct and Adslot Create. Despite this it is likely net operating cash flows from operations will be negative in FY 2013. 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 2012 of \$13.7m;
- Whilst the revenue from the Webfirm division is anticipated to be flat the division is expected to make continued positive net cash flows from its operations on existing revenue levels in FY 2013; 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 2012

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 reporting 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 reporting 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 2012

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 2012

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.

To the extent that it is not probable that taxable profit will be available in the foreseeable future against which the unused tax losses or unused tax credits can be utilised, the deferred tax assets of its own and its controlled entities are not recognised by Webfirm Group Limited.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

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.

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 2012

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 complete 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 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 2012

1. Summary of Significant Accounting Policies (Continued)

Software

Software represents internally developed software platforms capitalised according to accounting standards. Software is assessed as having a finite life and is amortised on a straight-line basis over the estimated useful life of the asset. The expected accounting useful life of software is 5 years.

The carrying value of the software is tested for impairment when an indicator of impairment arises during the reporting period.

(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:

- i. 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
- ii. 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 2012

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. All projects are assigned percentages of project completion (based on actual work in progress) and all website development revenue applicable to percentage of incomplete work is recorded as unearned revenue. Website hosting, SSL certificate and domain name registration revenue is recorded over one year duration. While 30% of search engine renewal revenue is recorded as earned in first month of renewal contract, the balance 70% revenue is recognised over 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 2012

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 group, 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 2012

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 reporting 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 reporting date was \$7,869,963 (2011: \$10,486,968) after an impairment loss of \$ 50,000 (2011: \$2,749,184) 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 \$211,045 (2011: \$822,835).

Unrecognised deferred tax assets

As disclosed in Note 5, the Group has not recognised deferred tax assets relating to temporary differences, capital losses or operating losses. Deferred tax assets are only recognised when it is probable that they will be able to be utilised in future reporting periods. Due to the continuing operating losses, the directors have determined it not appropriate to recognise deferred tax assets until a point in time where it is probable that future taxable income is going to be available to utilise the assets. The tax benefit of deferred tax assets not recognised is \$7,626,274 (2011: \$5,035,116).

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

1. Summary of Significant Accounting Policies (Continued)

Research and development tax concessions

A receivable of \$659,129 (2011: nil) has been recognised in relation to a research and development tax concession for the 2012 financial year. The actual claim is yet to be submitted with the Australian Tax Office and therefore there remains some uncertainty in regards to the quantum of the concession to be received. The financial statements reflect the Directors estimate of the receivable after taking into account the likelihood of each component of the claim being received.

Contingent consideration – QDC Technologies

As detailed in Note 19, within the acquisition agreement for QDC Technologies Pty Ltd (QDC), the Company agreed to pay further consideration of up to 13,333,333 additional shares if after eighteen (18) months the total consideration paid to the vendors was less than \$4.0 million. On 6 June 2012 all 13,333,333 additional shares became payable and nine out of eleven vendors of QDC were issued with 8,557,576 additional shares in accordance with the QDC acquisition agreement. The issue of additional shares to two QDC vendors who are related parties of the Company are subject to shareholder approval which will be sought at the 2012 AGM. At reporting date, the balance deferred vendor consideration has been estimated at \$286,545 (2011: \$354,776). This balance has been recognised in other liabilities with movements in liability during the year being recorded in other expenses in the statement of comprehensive income.

(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 2012 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 9 Financial Instruments*, *AASB 2009-11* and *AASB 2010-7 Amendments to Australian Accounting Standards arising from the AASB 9* sets out requirements for the classification and measurement of financial assets and liabilities. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. The Group will apply this revised AASB 2009-11 and AASB 2010-7 from 30 June 2014 but it is not expected to have any impact on the Group's financial statements.
- *AASB 10 Consolidated Financial Statements* requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in *AASB 127 Consolidation – Special Purpose Entities*. AASB 10 will become mandatory for the Group's 30 June 2012 financial statements. The Group will apply AASB 10 from 30 June 2013 but it is not expected to have any impact on the Group's financial statements.
- *AASB 11 Joint Arrangements* replaces *AASB 131 Interests in Joint Ventures* and requires assessing the rights and obligations to account for those rights and obligations in accordance with that type of joint agreement. AASB 11 will become mandatory for the Group's 30 June 2012 financial statements. The Group will apply AASB 11 from 30 June 2013 but it is not expected to have any impact on the Group's financial statements.
- *AASB 12 Disclosure of Interests in Other Entities* requires extensive disclosure of interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. AASB 12 will become mandatory for the Group's 30 June 2012 financial statements. The Group will apply AASB 12 from 30 June 2013 but it is not expected to have any impact on the Group's financial statements.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

1. Summary of Significant Accounting Policies (Continued)

- AASB 128 *Investments in Associates and Joint Ventures (2011)* supersedes AASB 128 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. AASB 128 will become mandatory for the Group's 30 June 2012 financial statements. The Group will apply AASB 128 from 30 June 2013 but it is not expected to have any impact on the Group's financial statements.
- AASB 13 *Fair Value Measurement* and related AASB 2011-8 *Amendments to Australian Accounting Standards* arising from AASB 13 replaces the guidance on fair value measurement in existing AASB accounting literature with a single standard. AASB 13 will become mandatory for the Group's 30 June 2012 financial statements. The Group will apply AASB 13 from 30 June 2013 but it is not expected to have any impact on the Group's financial statements.
- AASB 119 *Employee Benefits (2011)*, AASB 2011-10 *Amendments to Australian Accounting Standards* arising from AASB 119 (2011) and AASB 2011-11 *Amendments to AASB 119 (September 2011)* arising from *Reduced Disclosure Requirements* is an amended version of AASB 119 *Employee Benefits* with revised requirements for pensions and other post-employment benefits, termination benefits and other changes. AASB 12 will become mandatory for the Group's 30 June 2012 financial statements. The Group will apply AASB 119 from 30 June 2013 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 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* amends AASB 124 *Related party Disclosures* to remove the individual key management personnel disclosures required by Australian specific paragraphs. AASB 2011-4 will become mandatory for the Group's 30 June 2014 financial statements. The Group will apply AASB 12 from 30 June 2014 but it is not expected to have any impact on the Group's financial statements.
- AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* requires entities to group items presented in other comprehensive income (OCI) on the basis of subsequent reclassification to comprehensive income and requires tax associated with items presented before tax to be shown separately. AASB 2011-9 will become mandatory for the Group's 30 June 2013 financial statements. The Group will apply this revised AASB 2011-9 from 30 June 2013 but it is not expected to have any impact on the Group's financial statements.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

2. Segment Information

2012	Adslot	Webfirm	Total
Business segments			
External sales	988,202	2,818,745	3,806,947
Segment result from continuing operations	(8,325,243)	90,914	(8,234,329)
Depreciation included in segment result (note 9)	24,654	6,707	31,361
Amortisation included in segment result (note 11)	2,533,915	46,831	2,580,746
Additions to non-current assets (PP&E)	17,043	3,136	20,179
Impairment of intangibles	-	50,000	50,000
Statement of Financial Position			
Segment assets	15,169,232	607,814	15,777,046
Segment liabilities	(13,480,099)	(783,344)	(14,263,443)

2011	Adslot	Webfirm	Total
Business segments			
External sales	932,190	3,519,080	4,451,270
Segment result from continuing operations	(5,387,331)	(2,119,806)	(7,507,137)
Depreciation included in segment result (note 9)	13,171	89,971	103,142
Amortisation included in segment result (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
Statement of Financial Position			
Segment assets	17,205,397	2,018,314	19,223,711
Segment liabilities	(13,724,604)	(1,262,881)	(14,987,485)

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

Revenue	2012	2011
	\$	\$
Total segment revenue	3,806,947	4,451,270
Head office revenue	11,257	-
Interest revenue	891,590	903,194
Intersegment eliminations	(27,325)	(5,499)
Total revenue from continuing operations	4,682,469	5,348,965

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

2. Segment Information (Continued)

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

Segment Result	2012	2011
	\$	\$
Total segment result	(8,234,329)	(7,507,137)
Interest revenue	891,590	903,194
Other revenue	670,386	75,781
Impairment of intangibles	(50,000)	(2,749,184)
Deferred vendor consideration	(308,302)	(247,976)
Share option expenses	(211,045)	(822,835)
Other head office expenses not allocated in segment result	(89,958)	6,848
Loss before income tax from continuing operations	(7,331,658)	(10,341,309)

Reportable segment assets are reconciled to total assets as follows:

Segment assets	2012	2011
	\$	\$
Total segment assets	15,777,046	19,223,710
Head office assets	26,816,537	31,401,109
Intersegment eliminations	(19,235,100)	(19,784,104)
Total assets as per the statement of financial position	23,358,483	30,840,715

Reportable segment liabilities are reconciled to total liabilities as follows:

Segment liabilities	2012	2011
	\$	\$
Total segment liabilities	(14,263,443)	(14,987,485)
Head office liabilities	(827,836)	(628,262)
Intersegment eliminations	12,863,403	12,863,403
Total liabilities as per the statement of financial position	(2,227,876)	(2,752,344)

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

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 division allows media publishers to sell their premium advertising inventory directly to advertisers via a self-serve channel, increasing yield and significantly reducing sales and administration costs.

Webfirm

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

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

Segment revenue reported above represents revenue generated from external customers. Inter segment revenue transfers of \$27,325 (2011: \$5,499), and corresponding expenses have been eliminated on consolidation.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

2. Segment Information (Continued)

Geographical information

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

	Revenue from external customers		Non-current assets	
	2012	2011	2012	2011
	\$	\$	\$	\$
Continuing Operations				
Australia and New Zealand	3,780,305	4,176,204	8,248,359	13,643,739
North America	-	269,567	-	-
Europe	10,574	-	2,006	2,116
Total revenue and non-current assets from continuing operations	3,790,879	4,445,771	8,250,365	13,645,855

2012
\$

2011
\$

3. Revenue and Other Income

Revenue

Revenue for services rendered	3,790,879	4,445,771
Interest income	891,590	903,194
Total revenue	4,682,469	5,348,965

Other income

R&D grant	659,129	26,400
Export marketing development grant	-	49,381
Total revenue and other income	5,341,598	5,424,746

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

4. Expenses

Loss before income tax includes the following specific expenses:

Depreciation and amortisation

Amortisation – Leasehold improvements	7,169	53,689
Amortisation – Software development costs	2,580,746	2,028,287
Depreciation – Plant & Equipment	70,591	100,742
Total depreciation and amortisation	2,658,506	2,182,718

Finance costs

Interest paid/payable to unrelated entities	-	44
---------------------------------------------	---	----

Other charges against assets

Impairment of intangibles	50,000	2,749,184
Impairment of trade receivables	70,091	340,717
Rental expense – operating leases	377,231	584,281
Defined contribution superannuation expense	362,917	321,782
(Profit)/Loss on sale of PP&E & internally developed software	(20,274)	42,903
Deferred vendor consideration	308,302	247,976
Foreign currency loss	43,541	49,895

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

	2012	2011
	\$	\$
5 Income Tax Expense		
(a) Numerical reconciliation of income tax expense to prima facie tax benefit		
Loss before income tax	(7,331,658)	(10,341,309)
Prima facie tax benefit on loss before income tax at 30% (2011: 30%)	(2,199,497)	(3,102,393)
Tax effect of:		
Other non-allowable items	95,011	930,429
Share options expensed during year	63,314	246,851
Research & development tax concession	(510,081)	-
ESOP share purchase	(39,905)	-
Income tax benefit attributable to entity	(2,591,158)	(1,925,113)
Deferred tax assets relating to tax losses not recognised	2,591,158	1,925,633
Income tax expense attributable to entity	-	520
(b) Deferred Tax Assets Not Brought to Account		
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	691,724	1,488,369
Tax Losses:		
Operating losses	24,597,310	15,163,471
Capital losses	131,879	131,879
Potential tax benefit (30%)	7,626,274	5,035,116

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 2012

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.

	2012	2011
	\$	\$
7. Cash and cash equivalents		
Cash at bank and on hand	13,746,124	18,352,609

8. Trade and other receivables

Current:

Trade debtors	983,411	1,325,657
Less allowance for impairment	(470,684)	(523,190)
	<u>512,727</u>	<u>802,467</u>
Other receivables	800,037	451,554
Prepayments	49,230	121,375
Earn-out receivable from the sale of Adfeed Engine	-	16,039
	<u>1,361,994</u>	<u>1,391,435</u>

Impairment of trade receivables

Included in the allowance for impairment is an amount of \$445,703 (2011: \$445,703) representing a 100% provision over an overseas debt involving a legacy business for which the Company continues recovery proceedings.

The average age of the Company's receivables is 44 days (2011: 53 days).

Notes to the Financial Statements (Continued)
 For the year ended 30 June 2012

8. Trade and other receivables (Continued)

(a) Ageing of past due but not impaired

	2012	2011
	\$	\$
0 – 30 days	54,571	290,172
31 – 60 days	49,665	121,833
61 – 90 days	27,567	54,545
Over 91 days	390	220,623
	132,193	687,173

(b) Movement in the provision for impairment

Balance at beginning of the year	523,190	842,970
Impairment recognised during the year	95,522	469,292
Amounts written off as uncollectible	(108,390)	(752,287)
Amounts recovered during the year	(39,638)	(36,785)
Balance at the end of the year	470,684	523,190

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 provision required in excess of the provision for impairment.

Fair value of receivables

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

Notes to the Financial Statements (Continued)
 For the year ended 30 June 2012

	2012	2011
	\$	\$
8. Trade and other receivables (Continued)		
Non-current:		
Employee loans	-	200,000
	-	200,000
Movement in the provision for impairment: non-current receivables		
Balance at beginning of the year	-	1,363,343
Amounts written off as uncollectible	-	(1,363,343)
Balance at the end of the year	-	-
9. Non-Current Assets – Property, plant and equipment		
Leasehold improvements – at cost	36,385	96,740
Less: Accumulated amortisation	(7,594)	(64,036)
	28,791	32,704
Plant and equipment – at cost	159,090	248,593
Less: Accumulated depreciation	(78,608)	(159,386)
	80,482	89,207
Computer equipment – at cost	187,116	358,994
Less: Accumulated depreciation	(128,651)	(283,866)
	58,465	75,128
Total carrying amount of property, plant and equipment	167,738	197,039

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

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:

2012

	Leasehold Improvements	Plant and Equipment	Computer Equipment	Total
	\$	\$	\$	\$
Carrying amount at 1 July 2011	32,704	89,207	75,128	197,039
Additions	3,256	19,587	59,000	81,843
Disposals/write offs	-	(3,367)	(30,017)	(33,384)
Depreciation/amortisation expense	(7,169)	(24,945)	(45,646)	(77,760)
Carrying amount at 30 June 2012	28,791	80,482	58,465	167,738

2011

	Leasehold Improvements	Plant and Equipment	Computer 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

2012	2011
\$	\$

10. Non-Current Assets – Other financial assets

Available for sale investment carried at fair value

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

During the prior 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. Uncertainty exists in relation to the fair value of the Brandscreen investment, but the directors are satisfied that it is not below the current carrying value.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

11. Non-Current Assets – Intangible Assets

	Intellectual Property \$	Domain Name \$	Goodwill \$	Internally developed Software \$	Total \$
Year ended 30 June 2012					
Opening net book amount	10,302,375	38,267	-	146,326	10,486,968
Acquisitions	-	-	-	13,741	13,741
Amortisation	(2,533,915)	-	-	(46,831)	(2,580,746)
Impairment of assets	(50,000)	-	-	-	(50,000)
Carrying amount at 30 June 2012	7,718,460	38,267	-	113,236	7,869,963

At 30 June 2012

Cost	16,566,906	288,267	5,381,652	247,894	22,484,719
Accumulated amortisation/impairment	(8,848,446)	(250,000)	(5,381,652)	(134,658)	(14,614,756)
Carrying amount at 30 June 2012	7,718,460	38,267	-	113,236	7,869,963

	Intellectual Property \$	Domain Name \$	Goodwill \$	Internally developed Software \$	Total \$
Year ended 30 June 2011					
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

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

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

Goodwill

The Goodwill balances related 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

Domain names

Domain names opening carrying value of \$38,267 relates to the various domain names held by Webfirm CGU and 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”). \$5,932,006 of opening balance relates to this “CAP” technology.

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.

Accumulated amortisation of this asset as at 30 June 2012 was \$2,817,702 (2011: \$1,631,301). The amortisation period of the intangible asset is five years on a straight line basis.

Adimise Pty Ltd (“Adimise”) holding online ad-serving technology had \$271,055 of Ad-serving IP in the opening balance and attached to the Adslot CGU.

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

Accumulated amortisation of this asset as at 30 June 2012 was \$108,422 (2011: \$54,211). The amortisation period of the intangible asset is five years on a straight line basis.

QDC IP Technology (“QDC”) holding video advertising technology had licences to the Core IP valued at \$6,466,517 in opening balance and attached to Adslot CGU.

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 2012 was \$2,024,994 (2011: \$731,691). The amortisation period of the intangible asset is five years on a straight line basis.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

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

Software

The \$146,326 opening balance in internally development software is related to costs associated with two internally developed software platforms attached to Webfirm CGU, capitalised according to accounting standards.

The Directors are of the opinion that these software developments have a limited five year useful life and hence have been amortised accordingly by \$46,831 (2011: \$46,830).

During June 2012, research & development related wage costs attached to the Adslot division were capitalised according to accounting standards, amounting to \$13,741 (2011: nil).

	2012	2011
	\$	\$
12. Current liabilities – Payables		
Trade creditors	72,618	241,130
Other creditors	943,187	1,229,140
	1,015,805	1,470,270
13. Current liabilities – Other		
Current:		
Unearned revenue (i)	724,505	755,811
Deferred vendor consideration- QDC (ii)	286,545	354,776
	1,011,050	1,110,587

- (i) The significant portion of 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 reporting date.
- (ii) Deferred vendor consideration is the estimated value at 30 June 2012 of the balance additional shares that became due on 6 June 2012 as further vendor consideration from the acquisition of QDC. As two of the QDC vendors were related parties, shareholder approval is required prior to issue of these shares.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

	2012	2011
	\$	\$
14. Current Provisions		
Current:		
Employee benefits	174,727	164,603
Non current:		
Employee benefits	26,294	6,884

	2012	2011	2012	2011
	Number	Number	\$	\$
15. Contributed equity				
Ordinary Shares – Fully Paid	687,567,332	681,698,900	76,674,272	76,547,875

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 shares	Issue price	Capital raising costs	Value
			\$	\$	\$
30-Jun-10	Balance	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
30-Jun-11	Balance	681,698,900		933,903	76,547,875
06-Feb-12	Exercise of employee options	1,480,000	0.056	-	82,880
20-Mar-12	Cancellation of shares held in escrow	(2,000,000)	0.100	-	(200,000)
06-Jun-12	Issue of shares QDC deferred vendor consideration	8,557,576	0.044	-	376,533
30-Jun-12		689,736,476		933,903	76,807,288
	Less: Treasury shares ¹	(2,169,144)	0.061	-	(133,016)
30-Jun-12	Balance	687,567,332		933,903	76,674,272

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

15. Contributed equity (Continued)

1. Treasury shares

Treasury shares are shares in Webfirm Group Limited that are held by the Webfirm Group Employee Share Trust which was formed on 1 December 2011 to administer the Webfirm Group Share Ownership Plan (ESOP). This Trust has been consolidated in accordance with note 1 (c). Shares held by the Trust on behalf of eligible employees are shown as treasury shares in the financial statements.

Shares issued under the ESOP are held in escrow for a period of two years subject to ongoing employment with the Group. Employees may elect not to participate in the scheme.

Shares issued under this scheme will, subject to the provision of the Trust deed, rank equally in all respects and will have same rights and entitlements as ordinary shares under the Constitution of the Group.

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		30/06/12	0.10	6,000,003	-	(6,000,003)	-	-
Ordinary options		30/06/12	0.10	350,000	-	(350,000)	-	-
Ordinary options		22/10/12	0.09	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	10,180,000	-	(1,441,176)	(1,480,000)	7,258,824
Ordinary options		08/07/14	0.151	2,000,000	-	-	-	2,000,000
Ordinary options		29/08/14	0.096	309,589	-	(309,589)	-	-
Ordinary options		30/09/14	0.116	3,000,000	-	-	-	3,000,000
Ordinary options		30/09/14	0.190	300,000	-	-	-	300,000
				74,839,592	-	(8,100,768)	(1,480,000)	65,258,824

Employee ESOP shares issued and outstanding at the end of year the year are summarised below:

Issue Type	Escrow End Date	Valuation 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)	
Employee ESOP	30/11/13	0.053	-	413,511	-	-	413,511	
Employee ESOP	01/12/13	0.060	-	88,967	-	-	88,967	
Employee ESOP	12/12/13	0.064	-	833,333	-	-	833,333	
Employee ESOP	18/01/14	0.060	-	833,333	-	-	833,333	
				-	2,169,144	-	-	2,169,144

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

	2012	2011
	\$	\$
16. Reserves		
Reserves		
Share-based payments reserve	1,839,510	5,760,673
Available for sale investment reserve	106,335	106,335
Foreign currency translation reserve	-	(36,452)
	1,945,845	5,830,556
<i>Share-based payments reserve</i>		
Opening balance	5,760,673	4,937,838
Reclassification of lapsed options	(4,132,208)	-
Share based payment expense	211,045	822,835
Closing balance	1,839,510	5,760,673
<i>Available for sale investment reserve</i>		
Opening balance	106,335	-
Movement in fair value	-	106,335
Closing balance	106,335	106,335
<i>Foreign currency translation reserve</i>		
Opening balance	(36,452)	(36,408)
Movement on currency translation	-	(44)
Transfer to retained earnings ¹	36,452	-
Closing balance	-	(36,452)

¹ The foreign currency translation reserve was transferred to retained earnings due to the exit of the Ansearch Inc business.

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 2012

17. Earnings Per Share

	2012	2011
	Cents	Cents
(a) Basic earnings per share		
Loss attributable to the ordinary equity holders of the Company	(1.08)	(1.66)
	<hr/>	<hr/>
	2012	2011
	Cents	Cents
(b) Diluted earnings per share		
Loss attributable to the ordinary equity holders of the Company	(1.08)	(1.66)
	<hr/>	<hr/>
	2012	2011
	\$	\$
(c) Reconciliation of earnings used on calculating earnings per share (i)		
Loss from continuing operations attributable to the members of the Company used on calculating basic and diluted earnings per share	(7,331,658)	(10,341,829)
	<hr/>	<hr/>
	2012	2011
	Number	Number
(d) Weighted average number of shares used as the denominator		
Weighted average number of shares on issue used in the calculation of basic EPS	681,316,767	623,779,891
	<hr/>	<hr/>
	2012	2011
	Number	Number
(e) Weighted average number of shares used as the denominator		
Weighted average number of shares on issue used in the calculation of diluted EPS	681,316,767	623,779,891
	<hr/>	<hr/>
(i) During 2012 and 2011 there were no discontinued operations or values attributable to minority interests.		
	2012	2011
	Number	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.	74,062,833	82,793,127
	<hr/>	<hr/>

18. Discontinued Operations

There were no discontinued operations during the year ended 30 June 2012.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

19. Business Combinations

2012

There were no business combinations during the year ended 30 June 2012.

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' Carrying Amount	Fair Value	
	\$	\$	\$
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 2012

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	6,477,345

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 as at 30 June 2011. 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' Carrying Amount	Fair Value	
	\$	\$	\$
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	247,124	6,477,345	6,477,345

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 2012

20. Contingencies

No contingent assets or liabilities are noted.

2012	2011
\$	\$

21. Commitments

Operating lease commitments

Total operating lease expenditure contracted for at balance date but not capitalised in the financial statements payable:

Within 1 year	296,425	558,282
Between 1 and 5 years	261,188	676,541
	557,613	1,234,823
	557,613	1,234,823

The lease commitments detailed above relate to rental premises and lease rental of printer/copier.

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.

2012	2011
\$	\$

22. Remuneration of auditors

During the year the following fees were paid/payable to the auditor of the company:

Audit services

Audit and review of financial reports	90,000	90,000
---------------------------------------	--------	--------

Other services

Indirect tax services	39,500	-
	129,500	90,000
	129,500	90,000

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

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)	(resigned 30 August 2011)
Mr Anthony Du Preez (Executive Director)	(resigned 30 March 2012)
Mr Chris Morris (Non-Executive Director)	
Ms Tiffany Fuller (Non-Executive Director)	

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:

Name	Position
Mr Brendan Maher	Chief Financial Officer and Company Secretary
Mr Mathew Chamley	Regional General Manager Webfirm P/L (resigned 20 July 2011)

Key management personnel compensation

	2012	2011
	\$	\$
Short-term employee benefits	1,205,840	1,297,734
Post-employment benefits	36,294	58,454
Other long-term employee benefits	-	-
Termination benefits	50,360	19,584
Share based payments	8,395	437,574
Total compensation	1,300,889	1,813,346

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

23. Key Management Personnel Disclosures (continued)

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/set off \$	Balance at end \$	Number in group
2012	200,000	-	-	(200,000)	-	-
2011	200,000	-	-	-	200,000	1

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

	Balance at beginning \$	Loans granted \$	Interest charged \$	Amounts repaid/set off \$	Balance at end \$	Highest in period \$
2012						
D. Burden	200,000	-	-	(200,000)	-	200,000
2011						
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), on escrow (subject to settlement of loan) in the Company. The loan was provided on an interest free basis. The loan was approved by shareholders at an Extraordinary General Meeting held 16 September 2008. Mr Burden resigned on 30 August 2011 and the loan became due and payable at the end of February 2012. These shares were cancelled in March 2012. The interest not charged, calculated at the statutory interest rate of 7.80% for the year ended 30 June 2012, was \$11,210.

Business Acquisitions:

No related party transactions during the year ended 30 June 2012.

Transactions with Directors and their personally related entities:

During the year payments of \$90,575 were made to Venturian Pty Ltd an entity related to Mr Andrew Barlow for consulting services on normal terms and conditions. Payments of \$271,000 were also made to Venturian Pty Ltd for Andrew Barlow's services as CEO of the Group, which is included in key management personnel compensation.

During the year receipts of \$86,623 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 2012

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:

2012						
Name	Balance at the start of the year (Number)	Granted during the year as compensation (Number)	Exercised during the year (Number)	Forfeited/ Lapsed during the year (Number)	Balance at the end of the year (Number)	Vested and exercisable at the year end (Number)
<i>Directors</i>						
Mr A Giles	13,800,001	-	-	(2,000,001)	11,800,000	11,800,000
Mr A Barlow	9,900,001	-	-	(2,000,001)	7,900,000	7,900,000
Mr D Burden	13,000,000	-	-	-	13,000,000	13,000,000
Mr A Du Preez	8,500,000	-	-	-	8,500,000	8,500,000
Mr C Morris	-	-	-	-	-	-
Ms T Fuller	-	-	-	-	-	-
Other key management personnel						
Mr M Chamley	4,000,000	-	(1,480,000)	(1,441,176)	1,078,824	1,078,824
Mr B Maher	-	-	-	-	-	-
Totals	49,200,002	-	(1,480,000)	(5,441,178)	42,278,824	42,278,824

2011						
Name	Balance at the start of the year (Number)	Granted during the year as compensation (Number)	Exercised during the year (Number)	Forfeited/ Lapsed during the year (Number)	Balance at the end of the year (Number)	Vested and exercisable at the year end (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 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	-	-	-	-	-	-
Totals	64,900,003	3,000,000	(800,000)	(5,090,411)	62,009,592	60,009,592

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

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.

2012 Name	Held at 1 July 2011	Received during the year on exercise of options	Received during the year as compensation	Net other changes during the year	Held at 30 June 2012
Ordinary shares					
<i>Directors</i>					
Mr A Giles	18,421,288	-	-	-	18,421,288
Mr A Barlow	57,140,133	-	-	-	57,140,133
Mr D Burden*	5,631,499	-	-	(5,631,499)	-
Mr A Du Preez*	12,968,051	-	-	(12,968,051)	-
Mr C Morris	57,130,848	-	-	5,608,470	62,739,318
Ms T Fuller	100,000	-	-	-	100,000
<i>Other key management personnel</i>					
Mr B Maher	-	-	-	-	-
Mr M Chamley*	229,089	-	-	(229,089)	-
Totals	151,620,908	-	-	(13,220,169)	138,400,739

*shareholding effective as at date of resignation

2011 Name	Held at 1 July 2010	Received during the year on exercise of options	Received during the year as compensation	Net other changes during the year	Held at 30 June 2011
Ordinary shares					
<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 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	-	-	-	-	-
Totals	94,260,244	800,000	-	56,560,664	151,620,908

*shareholding effective as at date of resignation

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

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 \$2,030. 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.

1,480,000 options provided as remuneration were exercised during the year.

There were no options granted to employees of the Webfirm Group during the year in return for services rendered.

In July 2010, the Board has ceased issuing options to eligible employees under the scheme, as it believes that options are no longer the most effective way to remunerate employees.

The Company obtained approval at the 2011 Annual General Meeting to establish an employee incentive scheme comprising the Webfirm Group Limited Share Option Plan and the Webfirm Group Employee Share Trust.

Shares are available to be issued to eligible employees based on the performance against agreed key performance indicators. Any shares issued to eligible employees will be held on Trust for two years. The two year period is a service period required to be met by the eligible employee and if this service period is not met, the shares will be forfeited by the eligible employee.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

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

Grant Date	Escrow End Date	Valuation Price	Balance at start of the year Number	Granted during the year Number	Vested 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
01/12/11	30/11/13	0.053	-	413,511	-	-	-	413,511	-
02/12/11	01/12/13	0.060	-	88,967	-	-	-	88,967	-
13/12/11	12/12/13	0.064	-	833,333	-	-	-	833,333	-
19/01/12	18/01/14	0.060	-	833,333	-	-	-	833,333	-
Total			-	2,169,144	-	-	-	2,169,144	-
Weighted average share price			\$0.000	\$0.060	\$0.000	\$0.000	\$0.000	\$0.060	\$0.000

Weighted average remaining contractual life at 30 June 2012 (days)

542

The model inputs for ESOP shares granted during the year ended 30 June 2012 included:

Model Input	ESOP #1	ESOP #2	ESOP #3	ESOP #4
Grant Date	01/12/11	02/12/11	13/12/11	19/01/12
Exercise Date	01/12/13	02/12/13	13/12/13	19/01/14
Escrow End Date	30/11/13	01/12/13	12/12/13	18/01/14
Exercise Price	-	-	-	-
Price at Grant Date	\$0.053	\$0.06	\$0.064	\$0.06
Expected Volatility	45.0%	45.0%	49.0%	54.0%
Expected Dividend Yield	0%	0%	0%	0%
Risk Free Interest Rate	3.22%	3.22%	3.08%	3.21%

ESOP shares are valued using the Binomial option pricing model.

Other Options Issued

There were no other options issued during the year.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

24. Share Based Payments (continued)

2012

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
27/08/08	30/06/12	0.10	350,000	-	-	(300,000)	(50,000)	-	-
23/09/08	30/06/12	0.10	6,000,003	-	-	(6,000,003)	-	-	-
21/10/09	22/10/12	0.09	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	10,180,000	-	(1,480,000)	-	(1,441,176)	7,258,824	7,258,824
28/07/10	08/07/14	0.151	2,000,000	-	-	-	-	2,000,000	666,667
30/08/10	29/08/14	0.096	309,589	-	-	(309,589)	-	-	-
14/10/10	30/09/14	0.116	3,000,000	-	-	-	-	3,000,000	1,000,000
14/10/10	30/09/14	0.190	300,000	-	-	-	-	300,000	100,000
Total			74,839,592	-	(1,480,000)	(6,609,592)	(1,491,176)	65,258,824	61,725,491

Weighted average exercise price \$0.064 \$0.000 \$0.056 \$0.100 \$0.057 \$0.060 \$0.056

Weighted average remaining contractual life at 30 June 2012 (days)

260

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	-
Total			81,140,003	8,300,000	(3,620,000)	(8,290,000)	(2,690,411)	74,839,592	64,089,592

Weighted average exercise price \$0.072 \$0.120 \$0.076 \$0.182 \$0.096 \$0.064 \$0.059

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

605

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

24. Share Based Payments (Continued)

Options are valued using the Binomial option pricing model.

There were no options granted during the year ended 30 June 2012.

The model inputs for options granted during the year ended 30 June 2011 included:

<u>Model Input</u>	<u>Class #1</u>
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.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2012

	2012	2011
	\$	\$
25. Cash Flow reconciliation		
Reconciliation of Net Cash Flows from Operating Activities to Loss for the year		
Loss for the year after income tax	(7,331,658)	(10,341,829)
Depreciation and amortisation	2,658,506	2,182,718
Impairment of intangibles	50,000	2,749,184
Share based payment	211,045	822,835
Impairment of receivables	70,091	340,717
(Profit)/Loss on asset write off	(20,274)	42,903
Unrealised foreign currency (loss)/gain	43,541	49,895
<i>Changes in assets and liabilities (net of effects of acquisition and disposal of entities)</i>		
Decrease/(Increase) in receivables	(40,650)	208,074
(Decrease)/Increase in payables and other provisions	(337,022)	(46,593)
Net cash outflow from operating activities	<u>(4,696,421)</u>	<u>(3,922,096)</u>

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 2012

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:

	2012	2011
	\$	\$
Financial assets		
Cash and cash equivalents	13,746,124	18,352,609
Trade and other receivables	1,361,994	1,391,435
	<hr/>	<hr/>
	15,108,118	19,744,044
	<hr/>	<hr/>

(c) Liquidity risk

Financial liabilities

Trade and other payables	1,015,805	1,470,270
	<hr/>	<hr/>

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 2012

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 \$163,667 and decrease by \$155,139 (2011: increase by \$156,713 and decrease by \$150,372). 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:

	2012	2011
	\$	\$
Available-for-sale financial assets		
Investments in unlisted equities	212,664	212,664

The fair value of unlisted equities has been determined with reference to comparable equity transactions made by the unlisted company. No change in the fair value of the investments has occurred since the end of the end of the prior financial year.

(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 2012

27. Parent Entity Information

The following details of information are related to the parent entity, Webfirm Group Limited, at 30 June 2012. This information has been prepared using consistent accounting policies as presented in Note 1.

	2012	2011
	\$	\$
Current assets	12,887,682	18,110,475
Non-current assets	13,209,612	13,079,873
Total assets	26,097,294	31,190,348
Current liabilities	168,682	233,503
Non-current liabilities	-	-
Total liabilities	168,682	233,503
Contributed equity	76,807,288	76,547,875
Share-based payments reserve	1,839,510	5,760,673
Available for sale investment reserve	106,335	106,335
Retained losses	(52,824,521)	(51,458,038)
Total equity	25,928,612	30,956,845
Loss for the year	(11,547,299)	(10,848,668)
Total comprehensive loss for the year	(11,547,299)	(10,848,668)

The 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 \$544,537 (2011: \$909,890)

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

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 group, the results of those operations or the state of affairs of the group in future years.

Notes to the Financial Statements (Continued)
 For the year ended 30 June 2012

30. Consolidated Entities

Name	Country of Incorporation	Ordinary Share Consolidated Equity Interest	
		2012 %	2011 %
Parent entity			
Webfirm Group Limited	Australia		
Controlled entities			
Ads Alliance Pty Ltd*	Australia	-	100
Adslot Pty Ltd	Australia	100	100
Ansearch.com.au Pty Ltd	Australia	100	100
Ansearch Group Services Pty Ltd	Australia	100	100
Webfirm Media Pty Ltd	Australia	100	100
Enedia Pty Ltd*	Australia	-	100
Searchworld Pty Ltd	Australia	100	100
Webfirm Pty Ltd	Australia	100	100
Webfirm Search Pty Ltd*	Australia	-	100
Adimise Pty Ltd	Australia	100	100
Full Circle Online Pty Ltd	Australia	100	100
QDC IP Technologies Pty Ltd	Australia	100	100
Adslot UK Limited	United Kingdom	100	100
Adslot Inc.	United States	100	-

Equity interests in all controlled entities are by way of ordinary shares.

* Companies were deregistered during the year.

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 69 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 group's financial position as at 30 June 2012 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 10 to 18 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

23 August 2012

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 (the “Company”), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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 which require us to 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 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 Company's preparation and fair presentation of the financial report 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 Company'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.

Electronic presentation of audited financial report

This auditor's report relates to the financial report of Webfirm Group Limited and controlled entities for the year ended 30 June 2012 included on Webfirm Group Limited's web site. The Company's Directors are responsible for the integrity of Webfirm Group Limited's web site. We have not been engaged to report on the integrity of Webfirm Group Limited's web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's 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 2012 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 the notes to the financial statements.

Report on the remuneration report

We have audited the remuneration report included in pages 10 to 18 of the directors' report for the year ended 30 June 2012. 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.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Webfirm Group Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Michael Climpson
Partner - Audit & Assurance

Melbourne, 23 August 2012

Corporate Governance Statement

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. 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 four board members, three 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 four 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 2012 Women filled 25% of the Company's Board, 0% of the Company's Senior Management and 21% of all staff positions within the Company.

Principle 4: Safeguard integrity in financial reporting

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, which is managed via the Audit & Risk Committee.

Material business risks that are identified are brought to the attention of the Board or via the Audit and Risk Committee. 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 operates a Remuneration Committee and its 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 20 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	117	13,632	-	-
1,001 – 5,000	244	760,014	-	-
5,001 – 10,000	323	2,628,448	-	-
10,001 – 100,000	1,062	2,628,448	-	-
100,001 +	792	44,579,951	15	64,180,000
TOTAL	2,538	689,736,476	15	64,180,000

The number of shareholders holding less than a marketable parcel of shares (16,667 shares):

	889	6,196,146
--	-----	-----------

Twenty largest shareholders

Listed Ordinary Shares

	Number of Shares	% of Shares
--	------------------	-------------

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

1	VENTURIAN PTY LTD <MAVERICK INNOVATION A/C>	56,492,031	8.19
2	FINICO PTY LIMITED	55,148,796	8.00
3	OVERACHIEVE PTY LTD <OVERACHIEVE A/C NO 1>	28,500,000	4.13
4	ANDAMA HOLDINGS PTY LTD <J & M BARLOW PENSION A/C>	16,346,315	2.37
5	IMAGE DIGITAL PUBLICATIONS (VICTORIA) PTY LTD	14,545,455	2.11
6	PERSHING AUSTRALIA NOMINEES PTY LTD <ACCUM A/C>	10,592,904	1.54
7	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	9,094,484	1.32
8	YARRA VENTURES PTY LTD <GILES SHARE A/C>	8,706,577	1.26
9	MR JASON CONRAD SQUIRE <THE JASQUI A/C>	8,000,000	1.16
10	KHALON PTY LIMITED	7,990,330	1.16
11	PHILIP MURPHY INVESTMENTS PTY LTD <P & J MURPHY S/F A/C>	7,110,222	1.03
12	K PAGNIN PTY LTD <K PAGNIN FAMILY A/C>	7,000,000	1.01
13	COTU INVESTMENTS PTY LTD <COTU SUPER FUND A/C>	6,300,000	0.91
14	D & J PAGNIN SUPERANNUATION FUND PTY LTD <D & J PAGNIN SUPER FUND A/C>	6,000,000	0.87
15	KEO PROJECTS PTY LTD <KEO PROJECTS P/L S/F A/C>	5,829,670	0.85
16	FINICO PTY LIMITED <MORRIS SUPER FUND A/C>	5,608,470	0.81
17	YARRA VENTURES PTY LTD <GILES SHARE A/C>	5,569,629	0.81
18	ALCATT PTY LTD <TRUSTCAT INVESTMENT A/C>	5,487,858	0.80
19	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,205,138	0.75
20	CAPITAL ACCRETION PTY LTD <THE FORTIFIED VALUE A/C>	5,115,384	0.74
	Total Top 20 holders of Ordinary Shares	274,643,263	39.82
	Remaining holders balance	415,093,213	60.18

Classes of Shares

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

Substantial Shareholders

	Shares	% Shares
Chris Morris	62,739,318	9.10%
Andrew Barlow	57,140,133	8.28%

Voting Rights

All ordinary shares carry one vote per share without restrictions.

Corporate Directory

Directors

Mr Adrian Giles – Executive Chairman
Mr Andrew Barlow – acting CEO/Executive Director
Mr Chris Morris – Non-Executive Director
Ms Tiffany Fuller – Non-Executive Director

Chief Executive Officer - acting

Mr Andrew Barlow

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

Grant Thornton Australia
The Rialto
Level 30, 525 Collins Street
MELBOURNE VIC 3000

Solicitors

Hall & Wilcox Lawyers
Level 30, Bourke Place
600 Bourke 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