ADEFFECTIVE LIMITED
AND CONTROLLED ENTITIES
ABN 93 085 545 973

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2012

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CHAIRMAN'S LETTER

Dear Shareholder

The Year in Review

I enclose the Annual Report for AdEffective Limited (the **Company**") and its controlled entities (the Group") for the financial year ended 30 June 2012.

The financial year ended 30 June 2012 has been a year of restructure, consolidation and recapitalisation for the Company on a number of levels.

As previously announced to the market, the Directors strategic focus during the period was on recapitalising the Company with the aim of eliminating debt, stabilising its business and generating a sustainable future for AdEffective.

At an operating level, the Company successfully completed the reconstruction of its business around online advertising, settled several outstanding matters, ceased work on non-performing business units and undertook initiatives to reduce operating costs.

In December 2011, the Company was presented an opportunity by Patersons Securities Limited (**Patersons**), under which Patersons proposed to assist in the recapitalisation of the Company. As part of this recapitalisation process, Patersons assisted the Company in obtaining an immediate capital injection of $300,000 via a convertible loan, of which $100,000 was applied to enable the Company to redeem a number of convertible notes then on issue in the Company. The balance of $200,000 was utilised for the Company's working capital purposes.

Further, the Company completed a share consolidation on a 1 for 50 basis, and then successfully completed a renounceable rights issue raising approximately $1.5 million before costs.

With the Company's restructuring and recapitalisation complete, the focus returned to the key businesses of the Company, being the traditional AdFeed business together with the newly developed Footar business. The Group's results for FY12 reflect revenues predominantly generated from the AdFeed business with some revenue generated by the Footar division in the second half. Revenue for the year was $2,620,459 as compared to the prior year of $2,132,559.

FORWARD STRATEGY

The company made a net loss for the year of $1,650k, which included an impairment of goodwill and intangible assets of $983k. A full summary of our results is included in the segment disclosures of the notes to the financial statements. The syndicated online advertising business (AdFeed) continues to provide steady revenues for the organization and in FY12 delivered a segment result of $112k (before impairment, finance costs and other corporate expenses). However, due to a number of challenges within this industry the Company does not expect significant growth from this channel in the short to medium term. The Company remains committed to supporting and organically growing the AdFeed division, but expect that revenue growth for FY 13 will be less than 5% compared to FY 12.

Accordingly, the Company has shifted its focus to developing new platforms, such as Footar. The company is also looking at other opportunities to diversify its business content and has explored multiple revenue generation opportunities exploring additional online revenue streams.

Since July 2011, Footar has signed a number of major US website publishers and US advertising partners. Footar generated its first significant revenues in the second half of FY12 ($748k), with a total of $865K in revenues for FY12. The Footar division Net loss for FY12 was around 90K, most of which was incurred in the first half of FY12. Based on Footar Division results for Q4 2012, the Company expects Footar to be the main source of revenue growth in FY 13.

The Company has commenced additional development of the Footar Technology and remains committed to further expanding the product offering

In order to further grow and provide further stability to the business, the Company intends to actively pursue new business opportunities, possibly including opportunities in sectors other than the digital media industry in which it currently operates. Should suitable business opportunities be identified, the Company will assess them for technical, legal and commercial suitability.

OUTLOOK

With a solid Q4 in 2012, the company remains optimistic about achieving and maintaining profitability in FY13.

The Company remains committed to organic growth of its existing core businesses by focusing its attention on signing up additional partners and clients to its range of online advertising offerings.

In addition to focusing on organic growth, the Company intends to actively pursue acquisition opportunities to diversify its current business offerings.

The Directors believe the Group is well placed to leverage a number of opportunities and look forward to being in a position to provide shareholders with further updates on the Group's progress shortly.

Andrew Plympton
Non-Executive Chairman

Melbourne, 27 September 2012

CORPORATE INFORMATION

DIRECTORS

Andrew Plympton	Non-Executive Chairman
Damian London	Executive Director, Chief Executive Officer
Sophie Karzis	Non-Executive Director

COMPANY SECRETARY

Sophie Karzis

REGISTERED OFFICE

Level 3
1 Collins Street
Melbourne Victoria 3000

AUDITORS

Ernst & Young
8 Exhibition Street
Melbourne Victoria 3000

LAWYERS

HWL Ebsworth
Level 26, 530 Collins Street
Melbourne Victoria 3000

BANKERS

Westpac
360 Collins Street
Melbourne Victoria 3000

SHARE REGISTRY

Computershare Registry Services
GPO Box 242
Melbourne Victoria 3001
Tel: 1300 137 328

EXCHANGE LISTING

AdEffective Limited's ordinary shares are quoted on the Australian Securities Exchange Limited. (ASX: ABN). The Company's listed options are also quoted on the ASX, under the ASX code ABNO.

STATE OF INCORPORATION

Victoria

DIRECTORS' REPORT

The Directors present their report together with the financial report of the consolidated entity consisting of AdEffective Limited (the **Company**) and its controlled entities (the **Group**), for the financial year ended 30 June 2012 and independent auditor's report thereon.

Information on directors and company secretary

The qualifications, experience and special responsibilities of each person who has been a Director of AdEffective Limited, together with details of the Company Secretary, during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Name	Particulars
Mr Andrew Plympton	**Non-Executive Chairman** Mr Plympton joined the Company in February 2010 and brings to the role a wealth of experience in a diverse range of commercial activities. In the financial services sector, Mr Plympton has been either the managing director and/or executive chairman of a number of International insurance brokers, underwriting agencies and captive insurance managers. In the public company sector, Andrew is the chairman of Beyond Sportswear International Limited (ASX: BSI), Chairman of Entellect Limited (ASX: ESN) and is a director of Newsat Limited (ASX: NWT) and Energy Mad Limited (NZX: MAD). Andrew is also a Commissioner of The Australian Sports Commission, Executive Member and Director of The Australian Olympic Committee and Australian Olympic Foundation Limited. During the last three years Mr Plympton has not served as a director of any other listed companies, other than those listed above.
Mr. Damian London	**Executive Director and Chief Executive Officer** Mr. London co-founded Planet W in 2007 and brings with him over 16 years' experience in management, software and web development, search engine marketing and online advertising. In 2004 he co-founded Ansearch (later to become Ansearch Ltd) and spent 3 years as Chief Technology Officer and Group Search and Information Technology Manager, during which time he was responsible for the Search Divisions overall business activities including marketing, technology, business development and innovation. Mr. London has a particularly strong technical background in the online search and marketing area and has also co-founded a number of online advertising and marketing companies in the last four years including PlanetW, Project Search and Hot Shot Media. During the last three years, Mr London has not served as a director of any other listed companies.
Ms Sophie Karzis	**Non-executive Director (Appointed on 20 January 2012) and Company Secretary** **B.Juris, LLB** Ms Karzis is practising lawyer with over 10 years' experience in corporate law. She is company secretary and general counsel to a number of public (listed and unlisted) and private companies and is the principal of Corporate Counsel, a business which provides corporate and company secretarial services to Australian companies.

Mr. Barry Green **Executive Director**
Resigned 20 January 2012

Barry Green, based in the San Francisco Bay Area is the head of Business Development for AdEffective Ltd. He was President at Barry Green & Associates, an internet consultancy, from March 1996 until August 1998. He was Western Regional Manager at Media Space Solutions from September 1998 until August 1999 and Sales Director Western Region at Northern Light search engine from September 1999 until January 2002. He subsequently joined Submitnet as VP Sales & Business Development in Feb 2002 and then became Vice President, Business Development at ExactSeek.com and Jayde Online Network in October 2004. In conjunction he was also Vice President of the ISEDN.org, starting in June 2005. He was also Co-Founder of Online Media Ventures LLC from August 2007. He joined the Ad Effective as Senior Vice President Business Development in 2010 and was appointed to the AdEffective Board in May 2011. During the last three years, Mr Green has not served as a director of any other listed companies.

Directors' Meetings

The number of meetings of the Board of Directors held during the financial year and the numbers of meetings attended by each Director (while they were a Director) were as follows:

Director	Eligible to Attend	Number Attended
Mr. Andrew Plympton	10	10
Mr. Damian London	10	10
Ms Sophie Karzis (appointed 20 January 2012)	5	5
Mr. Barry Green (resigned 20 January 2012)	5	3

Board Committees

During the financial year and as at the date of this report, the Group did not have separately established nomination, audit or remuneration committees (refer Corporate Governance Statement below).

Directors' Interests in Shares and Options of the Group

As at the date of this report, the relevant interests of the Directors in the shares and options of the Group were:

Director	Numbers of ordinary shares	Number of options (unlisted)
Mr. Andrew Plympton	Nil	600,000
Mr. Damian London *(1)*	34,518,667	1,000,000
Ms Sophie Karzis	Nil	Nil

1. *Includes shares held by Planet W Pty Ltd in which the director holds approximately a 26% interest. In addition the director holds shares and options individually and through his director related entity.*

Directors' Interests in Contracts

Directors' interests in contracts are disclosed in note 25 to the consolidated financial statements.

Earnings Per Share	**Cents**
Basic and diluted earnings per share	(1.35)

Dividends, paid, recommended and declared

No dividends were paid, declared or recommended since the start of the financial year ended 30 June 2012.

Corporate Information

Corporate structure

AdEffective Limited is a company limited by shares that is incorporated and domiciled in Australia and listed on the Australian Securities Exchange (ASX). AdEffective Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year ending 30 June 2012. The Company's subsidiary entity is set out in note 25 to the consolidated financial statements.

Nature of operations and principal activities

The Group's principal activities in the course of the financial year were in the area of online Internet advertising, including search, text and display advertising. There has been no significant change in the nature of these activities during the financial year.

Employees

The Group employed no employees as at 30 June 2012 (2011: Nil). The Group had consulting agreements with 4 contractors as at 30 June 2012 (2011: 5 contractors) who performed the primary activities of the Group at 30 June 2012.

Operating and financial review

Review of Operations

In 2012 AdEffective committed to focusing on the further development of the Footar Division and continual operations of the AdFeed Division. AdEffective achieved three solid months of results in Q4 2012 resulting in a profitable of $58,678 net profit excluding the impairment, depreciation and amortisation expenses and finance cost in Q4 quarter for the Company.

With Footar Division revenues continually improving on a quarterly basis since Q2 2012 and AdFeed Division revenues remaining in line with budgeted expectations, the Company is positioned well to ensure future growth in FY2013.

The Company intends to undertake further development of its Footar Technology in FY2013 and continues to seek additional Advertising suppliers and Publishing partners to grow revenues.

The Group's results for the year ended 30 June 2012 resulted in a loss of $1,649,942. Although higher than 2011, the figure includes impairment, depreciation and amortisation expenses totalling $1,339,003 and finance costs of $121,083 associated with the convertible notes and loan from the directors incurred during the year.

The Group employment expenses in 2012 decreased to $590,224 (2011:$1,086,146). Although this was a significant decrease, it did not have an impact on sales revenues.

Revenues were predominantly generated in Q1 and Q2 from the AdFeed business, whilst Q3 and Q4 saw a significant increase in Footar revenues. Overall revenues increased by around $487,900 to $2,620,459 in 2012 (2011: $2,132,559) which can be attributed to better results in the Footar Division in Q3 and Q4.

Results

Revenue for the year ended 30 June 2012 was $2,620,459 (2011:$2,132,559). Loss from continuing operations was $1,649,942 (2011: $1,105,827). This result includes the impairment of the goodwill and intangibles assets associated with the Planet W business, together with the write-off of the Group's finance facility fee which was previously being amortised over a 5 year period.

Group Performance over the five-year period

	2012	**2011**	**2010***	**2009**	**2008**
Basic earnings per share (cents)	(1.35)	(1.12)	0.01	(0.5)	(0.3)

** Change of business structure and ownership.*

Financial position

The Group had net assets of $593,492 as at 30 June 2012 (2011: $828,979).

The Group had receivables of $946,821 as at 30 June 2012 (2011: $513,345).

The Group had payables of $707,328 at 30 June 2012 (2011: $626,995). The Group had paid off the convertible notes as at 30 June 2012 (2011: $531,397).

Cash flows

The Group incurred net operating cash outflows of $424,440 during the year ended 30 June 2012 (2011: $973,661). Net investing cash outflows were $nil in the year ended 30 June 2012 (2011: $nil).

Net financing cash inflows were $643,416 in the year ended 30 June 2012 (2011: $532,732). During the financial year the Group paid off the convertible notes (2011: Inflow of $531,397).

There was a cash balance at 30 June 2012 of $353,999 (2011:$135,023).

Likely developments and expected results

Disclosure of information regarding likely developments in the operations of the Group in future financial years has been made, in part, in the Chairman's Letter of this Annual Report. Any further such disclosure and the expected results of those operations are likely to result in unreasonable prejudice to the Group and has accordingly not been disclosed in this report.

Risk Management

The Board takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board. The Company believes that it is crucial for all Board members to be a part of this process and, as such, the Board has not established a separate risk management committee.

Significant changes in the state of affairs

The following significant changes in the state of affairs of the Group occurred during the financial year:

- On 22 December 2011, the Company entered into convertible loan agreements to the value of $300,000 with the clients of Paterson's Securities Limited.
- On 20 January 2012, Mr Barry Green resigned as non-executive director of the Company to focus on other interests. On the same day, the Board appointed Ms Sophie Karzis as non-executive director of the Company.
- On 17 February 2012, the Company completed the 1 for 50 share consolidation of the Company securities.
- On 5 April 2012, the Company issued and allotted 25,787,586 shares and 25,787,586 free attaching share options to the shareholders under Rights Issue for $386,814.

- On 13 April 2012, the Company announced the completion of Right issue and the shortfall shares of 73,401,934 and free attaching share options of 73,401,934 were issued and allotted to the Underwriter under the Rights issue for $1,101,029. In addition, 33,063,174 share options were issued to the Underwriter under the Underwriter offer.
- On the 13 April 2012, convertible notes with a face value of $400,000 were redeemed in full together with interest of $55,774; these amounts were funded from the proceeds of the Right Issue.
- On 17 April 2012, convertible notes with a face value of $300,000 were redeemed in full together with interest of $12,526.
- On 18 April 2012, the Company issued 9,518,667 fully paid ordinary shares to Planet W Pty Ltd as deferred consideration (more specifically an “earn-out”) for the acquisition of the business and assets of Planet W Pty Ltd of $142,780, as approved by shareholders at the Company’s EGM held in February 2012.
- On 15 May 2012, the Company issued 15,000,000 listed options to the providers of convertible loans pursuant to convertible loan deeds entered into as disclosed in the Company’s Rights Issue Prospectus dated 2 March 2012.
- On 21 May 2012, the Company issued 10 listed options under a Prospectus dated 16 May 2012 primarily to satisfy compliance requirements under s708A(11) of the Corporations Act to remove any secondary sale restrictions attached to 15,000,000 listed options issued on 15 May 2012.

After balance date events

No matter or circumstance has occurred or been identified since 30 June 2012 to the date of this report, that has significantly affected, or may significantly affect the Group’s continuing business operations.

Environmental regulation

The Group’s operations are not subject to any significant Commonwealth or State environmental regulations or laws.

Share options (listed & unlisted)

A total of 147,252,704 listed share options were issued during the financial year, and no options have been issued since 30 June 2012. A total of 4,214 listed share options were exercised during the financial year, and no options have been exercised since 30 June 2012. As at the date of this report, there were 147,248,490 listed share options and 2,600,000 unlisted share options outstanding. Refer to note 26 of the financial statements and the Remuneration Report for further details of share options outstanding to directors and key management personnel.

Indemnification and insurance of directors, officers and auditors

No indemnities have been given or insurance premiums paid during or since the end of the financial year for any Directors, officers or auditors of the Group.

Proceedings on behalf of the Consolidated Entity

No person has applied for leave of Court to bring proceedings on behalf of the Group.

Remuneration Report (Audited)

This report outlines the remuneration arrangements in place for Directors and executives of the Group.

Remuneration policy
The performance of the Group depends upon the quality of its Directors and executives. To be successful, the Group must attract, motivate and retain highly skilled Directors and executives. To this end, the Group seeks to provide competitive rewards to attract high calibre executives. The Board of Directors is responsible for determining and reviewing remuneration arrangements for the Directors, the Managing Director and the executive team. The Board of Directors assesses the appropriateness of the nature and amount of remuneration of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Hedging of equity awards
The Group has a policy in place to prohibit Directors and executives from entering into arrangements to protect the value of unvested options.

Remuneration committee
In view of the size of the Group, the Group does not have a separately established remuneration committee.

Remuneration structure
In accordance with best practice corporate governance, the structure of non-executive Director and executive remuneration is separate and distinct.

Executive Director and senior manager remuneration
Objective
The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- Reward executives for the Group and individual performance;
- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the Group; and
- Ensure total remuneration is competitive by market standards.

Structure
Currently remuneration is paid in the form of cash remuneration, superannuation contributions and share options where applicable. The Group's remuneration policy was not directly related to Group performance during the FY12 year due to the fact that the Group arranged these remuneration packages when coming out of administration and prior to its shares being requoted on the ASX; at that point in time, the Board of Directors took the view that the business was at an early stage and the key rationale of issuing share options was to serve as a retention incentive. For the financial year ending 30 June 2013, the Directors have put in place remuneration packages with key executives that are dependent on performance conditions being met; these will be appropriately disclosed in the relevant reporting periods in the future. The Group paid bonuses during the financial year ended 30 June 2012. Further details of the remuneration of the Directors and Key Management Personnel are provided in note 26 to the consolidated financial statements.

Share options
All Directors, employees, and consultants, have the opportunity to qualify for participation in the Group Share Option Plan. The issue of options under this plan is at the discretion of the Board and is not currently based on the Group performance. Options are used by the Group as a non-cash form of remuneration and have the objective of aligning employee interests with the objective of increasing shareholder wealth. Any issue of options under the plan to Directors is subject to shareholder approval. No options were granted as part of Directors' remuneration during the year ended 30 June 2012 (2011: 50,000,000). Details regarding the issue of share options under the Group Share Option Plan to Directors during the year are provided in note 17 to the consolidated financial

statements. No options were issued to executives or staff during the year ended 30 June 2012 (2011: nil).

Employment contracts

The CEO has formal service agreements with the Group.

The Company has entered into a service contract with DL Consulting Group Pty Ltd ACN 127 541 011 under which DL Consulting Group Pty Ltd is obliged to provide the services of Mr Damian London to the Company to perform the functions of the Chief Executive Officer. Under this Contract, either party can terminate the arrangement at any time by giving to the other notice in writing for a period of not less than three (3) months or in the case of the Company by providing an equivalent payment in lieu of such notice.

The amount of the fees payable under the Contract is $6,000.00 per month plus GST (but exclusive of any superannuation if applicable) until 30 September 2011 and $12,500.00 per month plus GST (but exclusive of any superannuation if applicable) from 1 October 2011 until further review or the termination of this Agreement. In addition, a performance bonus is set on an annual basis. This is as determined by the Board for a combination of achievement of net profit after tax and achievement of personal KPIs as approved by the Board. The incentive is subject to specific annual agreement between the parties so as to reflect relevant circumstances at the time. No bonus was payable to the CEO for the 2011 financial year.

Other staff and contractors are employed on contracts which are generally terminable on either party giving one month's written notice.

Non-executive director remuneration

The Group's constitution provides that the total amount of remuneration provided to all non-executive Directors must not exceed $200,000.

Remuneration of key management personnel and executives of the Company and the Group

Executive remuneration for the years ended 30 June 2012 and 30 June 2011 were as follows:

	Short Term Benefits		Post-Employment	Equity					
Name	Salary & Fees $	Bonus $	Super-annuation Contri-butions $	Number of Shares Granted No.	Value of Shares Granted $	Number of Options Granted No.	Value of Options Granted $	Percentage of options value/bonus that represent remu-neration %	Total $
2012									
Mr. Damian London Exec Director, CEO	$130,500	-	$11,745	-	-	-	-	-	$142,245
Mr Barry Green Exec Director*	$89,138	$12,860	-	-	-	-	-	12.61	$101,998
Ms Sophie Karzis Co Secretary, Non-exec Director	$10,175	-	-	-	-	-	-	-	$10,175
Total	$229,813	$12,860	$11,745	-	-	-	-	-	$254,418

* *Resigned during the year.*

Name	Short Term Benefits Salary & Fees $	Bonus $	Post-Employment $ Super-annuation Contri-butions $	Equity Number of Shares Granted No.	Value of Shares Granted $	Number of Options Granted No.	Value of Options Granted $	Percentage of options value/bonus that represent remu-neration %	Total $
2011									
Mr. Damian London Exec Director, CEO	$64,462	-	$6,096	-	-	-	-	-	$70,558
Mr Barry Green Exec Director	$179,442	$32,189	-	-	-	-	-	15.21	$211,631
Mr. Dean Jones Managing* Director	$197,940	-	$14,105	-	-	-	-	-	$212,045
Mr. Cary Stynes Exec Director *	$153,083	-	$9,282	37,468,738	$37,468	50,000,000	$16,335	7.56	$216,168
Ms Sophie Karzis Co Secretary	$45,500	-	-	-	-	-	-	-	$45,500
Total	$640,427	$32,189	$29,483	37,468,738	$37,468	50,000,000	$16,335	-	$755,902

* *Resigned during the year.*

Remuneration of Non-executive directors for the Group

Non-executive remuneration for the year ended 30 June 2012 and 30 June 2011 was as follows:

Name	Short Term Benefits Salary & Fees $	Post-Employment Superannuation Contributions $	Equity Number of Options Granted No.	Value of Options Granted $	Total $
2012					
Mr Andrew Plympton Non-Executive Chairman	$24,000	-	-	-	$24,000
Total	$24,000	-	-	-	$24,000

Name	Short Term Benefits Salary & Fees $	Post-Employment Superannuation Contributions $	Equity Number of Options Granted No.	Value of Options Granted $	Total $
2011					
Mr Andrew Plympton Non-Executive Chairman	$24,000	$2,160	-	-	$26,160
Total	$24,000	$2,160	-	-	$26,160

Share issues during the year

On 18 April 2012, 9,518,667 fully paid ordinary shares were issued to Planet W Pty Ltd, a company of which Mr Damian London, the Company's CEO and Executive Director, is a shareholder and director. These shares were issued in lieu of deferred cash consideration (more specifically an "earn-out") for the acquisition of the business and assets of Planet W Pty Ltd in April 2010. Refer to note 17.

Options granted

No options were issued to Directors or other key management personnel during the year ended 30 June 2012 (2011: post consolidation 1,000,000).

Tax consolidation

The Company and its subsidiaries have formed a tax consolidated group as at the date of this report.

Auditor's independence declaration

A copy of an auditor's independence declaration in relation to the audit for the financial year is provided with this report.

Non-audit services

The auditor, Ernst & Young, did not provide any non-audit services to the Group during the financial year ended 30 June 2012.

Signed in accordance with a resolution of the Directors.

Andrew Plympton
Non-Executive Chairman

Melbourne, 27 September 2012

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

Auditor's Independence Declaration to the Directors of AdEffective Limited

In relation to our audit of the financial report of AdEffective Limited for the financial year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Robert Dalton
Partner
27 September 2012

Corporate Governance Statement

This statement sets out the corporate governance practices that were in operation throughout the financial year for AdEffective Limited and its controlled entities (the **Group**). The Group's Directors and management are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance.

The Company has adopted and substantially complies with the ASX Corporate Governance Council's Principles and Recommendations 2010 Amendments, 2nd Edition, to the extent appropriate to the size and nature of the Company's operations.

A summary of how the Company complies with the revised ASX Corporate Governance Principles and Recommendations is included below. The various charters and policies are all available on the Company's web site: www.adeffective.com.au.

ASX Principle	Status	Reference / Comment
Principle 1: Lay solid foundation for management oversight		
Formalise and disclose the functions reserved to the board and those delegated to management		
1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions	Complying	The Board has adopted a charter which establishes the role of the Board and its relationship with management. The primary role of the Board is the protection and enhancement of long term shareholder value. Its responsibilities include the overall strategic direction of the Group, establishing goals for management and monitoring the achievement of these goals. The functions and responsibilities of the Board and management are consistent with ASX Principle 1. A copy of the Board Charter is posted on the Group's website. Each Director is given a letter upon his or her appointment which outlines the Director's duties. The Group has in place systems designed to fairly review and actively encourage enhanced Board and management effectiveness.
1.2 Companies should disclose the process for evaluating the performance of senior executives.	Complying	The Board and the Chief Executive Officer monitor the performance of senior management, including measuring actual performance against planned performance. The Board also reviews the Chief Executive Officer's performance annually.
1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.	Complying	A copy of the Company's Board Charter is available on the Company's website in a clearly marked Corporate Governance section. A performance evaluation for senior executives has taken place in the reporting period.
Principle 2: Structure the Board to add value		
Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties		
2.1 A majority of the board members should be independent.	Complying	Two of the three Directors of the Board are independent. The test to determine independence which is used by the Company is whether a Director is independent of management and any business or other relationship with the Group that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement. The Directors considered to be independent are Mr Andrew Plympton and Ms Sophie Karzis.

ASX Principle	Status	Reference / Comment
2.2 The chairman should be an independent director.	Complying	The Chairman, Mr Andrew Plympton has been Chairman of the Company since 26 August 2010 and was, at the date of his appointment and continues to be, independent. The Chairman leads the Board and is responsible for the efficient organisation and conduct of the Board's functions.
2.3 The roles of the chairman and the chief executive officer should not be exercised by the same individual.	Complying	The positions of Chairman and Chief Executive Officer are held by separate persons.
2.4 The board should establish a nomination committee.	Non-Complying	The Board does not currently have a formal Nomination Committee, however the Board as a whole carries out the functions that would otherwise be carried out by a Nomination Committee.
2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Complying	The Board conducts an informal annual performance review of itself that compares the performance of the Board with the requirements of the Board Charter, critically reviews the mix of the Board and suggests and amendments to the Board Charter as are deemed necessary or appropriate.
2.6 Provide the information indicated in the Guide to reporting on Principle 2.	Complying	The following information is set out in the Company's annual report: • the skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report; • the directors considered by the Board to constitute independent directors and the Company's materiality threshold; • the existence of any of the relationships which may affect independence and an explanation of why the board considers a director to be independent notwithstanding the existence of these relationships; • a statement regarding directors' ability to take independent professional advice at the expense of the Company; • a statement as to the mix of skills and diversity for which the board of directors is looking to achieve in membership of the Board; • The term of office held by each director in office at the date of the report. • The names of members of the Company's committees and their attendance at committee meetings. • whether a performance evaluation for the board, its committees and directors has taken place in the reporting period and whether it was in accordance with the process disclosed; • an explanation of any departures from Recommendations 2.1, 2.2, 2.3, 2.4, 2.5 or 2.6. The following material is publicly available on the Company's website in a clearly marked Corporate Governance section: • a description of the procedure for the selection and appointment of new directors and the re-election of incumbent directors; • the Board's policy for the nomination and appointment of directors.
Principle 3: Promote ethical and responsible decision-making ***Companies should actively promote ethical and responsible decision-making***		
3.1 Companies should establish a code of conduct and disclose the code as to: • **The practices necessary to maintain confidence in the company's integrity.**	Complying	The Group has formulated a Code of Conduct which can be viewed on its website. The Group has adopted a Share Trading Policy which can be viewed on its

ASX Principle	Status	Reference / Comment
• **The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.** **The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.**		website.
3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	Non-Complying	The Board has contemplated the necessity of implementing a diversity policy. Noting the relatively small size of the Company and the fact that the Company has a small number of employees, the Board has resolved to depart from the new recommendations by not implementing a gender diversity policy.
3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Non-Complying	The Board has not implemented a diversity policy and is of the view that due to the relatively few employees that the Company has, the recommendation is inappropriate to the Company's particular circumstances
3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Complying	The Company does not have any employees, other than the Chief Executive Officer, who is a male, and a small number of contractors, who are also male. There is a woman on the Board of Directors,

Principle 4: Safeguard integrity in financial reporting

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

4.1 The board should establish an audit committee.	Non-Complying	Whilst the Board has established an Audit Committee, this is currently suspended until such time as the Board appoints a further Non-Executive and independent director. In the meantime, the Board as a whole carries out the functions of the Audit Committee in accordance with the Group's Audit Committee Charter.
4.2 The audit committee should be structured so that it: • **Consists only of non-executive directors ; Consists of a majority of independent directors; Is chaired by an independent chair, who is not chair of the board; Has at least three members.**	Non-Complying	See above. The Board as a whole carries out the functions of an audit committee.
4.3 The audit committee should have a formal charter. Companies should provide the information indicated in the Guide.	Non-Complying	The Board has established an audit and risk committee charter.
4.4 Companies should provide the information indicated in the Guide to reporting on Principle 4.	Complying	The Company will continue to explain any departures from Principle 4 in its future annual reports.

ASX Principle	Status	Reference / Comment
Principle 5: Make timely and balanced disclosure		
Companies should promote timely and balanced disclosure of all material matters concerning the company		
5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies.	Complying	The Group has a documented policy which has established procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. The Chief Executive Officer and the Company Secretary are responsible for interpreting the Group's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX.
5.2 Companies should provide the information indicated in the Guide.	Complying	The Company's Market Disclosure & Shareholder Communication Policy is posted on the Company's website in a clearly marked Corporate Governance section.
Principle 6: Respect the rights of shareholders		
Companies should respect the rights of shareholders and facilitate the effective exercise of those rights		
6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Complying	The Board informs shareholders of all major developments affecting the Group's state of affairs as follows: 1. The annual report is distributed to all shareholders, including relevant information about the operations of the consolidated entity during the year and changes in the state of affairs. 2. The half-yearly report to the Australian Securities Exchange contains summarised financial information and a review of the operations of the consolidated entity during the period. 3. All major announcements are lodged with the Australian Securities Exchange, and posted on the Group's website. 4. Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders. 5. The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. 6. The Group's auditor attends the Annual General Meeting.
6.2 Companies should provide the information indicated in the Guide to reporting on Principle 6.	Complying	The Company explains any departures from Principle 6 in its annual reports. The Company's Market Disclosure & Shareholder Communication Policy is posted on the Company's website in a clearly marked Corporate Governance section.
Principle 7: Recognise and manage risk		
Companies should establish a sound system of risk oversight and management and internal control		
7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Complying	The Board has responsibility for monitoring risk oversight and ensures that the Chief Executive Officer reports on the status of business risks through risk management programs aimed at ensuring risks are identified, assessed and appropriately managed. In addition the Board is responsible for reviewing the risk management framework and policies of the Group.

ASX Principle	Status	Reference / Comment
7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Complying	The Board reviews the Group's major business units, organisational structure and accounting controls and processes on a continuing basis. A description of the Group's risk management policy and internal compliance and control systems will be available on the Group's website shortly.
7.3 The board should disclose whether it has received assurance from the chief executive officer and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Complying	The Chief Executive Officer and the Chief Financial Officer (or equivalent) are required to state to the Board in writing that the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control and that the Group's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.
7.4 Companies should provide the information indicated in the Guide to reporting on Principle 7.	Complying	The following material is included in the corporate governance statement in the Company's Annual Reports: • explanation of any departures from Recommendations 7.1, 7.2, 7.3 or 7.4. • whether the Board has received the report from management under Recommendation 7.2 • whether the Board has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) under Recommendation 7.3. A summary of the Company's policies on risk oversight and management of material business risks is either currently, or will shortly be, publicly available on the Company's website in a clearly marked corporate governance section.

Principle 8: Remunerate fairly and responsibly

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

ASX Principle	Status	Reference / Comment
8.1 The board should establish a remuneration committee.	Non-Complying	The Board has not established a Remuneration Committee but the Board as a whole carries out the functions that would otherwise be carried out by a Remuneration Committee.
8.2 The remuneration committee should be structured so that it consists of a majority of independent directors, is chaired by an independent chair and has at least three members.	Non-Complying	See above.
8.3 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Complying	Details of the Directors and key senior executives remuneration are set out in the Remuneration Report of the Annual Report. The structure of non-executive Directors' remuneration is distinct from that of executives and is further detailed in the Remuneration Report of the Annual Report.

ASX Principle	Status	Reference / Comment
8.4 Companies should provide the information indicated in the Guide to reporting on Principle 8.	Complying	Details of the Directors and key management personnel remuneration are set out in the Remuneration Report of the Annual Report. The Company does not have a Remuneration Committee although the Board as a whole carries out this function in accordance with a Charter. There are no schemes for retirement benefits, other than superannuation, for non-executive directors. A copy of the Company's Remuneration Committee charter is posted on the Company's website in a clearly marked corporate governance section, together with a summary of the Company's policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

	Notes	**Consolidated 2012 $**	Consolidated 2011 $
Revenue			
Sales revenue	6	**2,620,459**	2,132,559
Other income	6	**11,376**	6,055
		2,631,835	2,138,614
Direct costs	7	**(1,696,356)**	(1,321,464)
Gross profit		**935,479**	817,150
Employee benefits expenses	7	**(590,224)**	(1,086,046)
Administrative expenses	7	**(531,356)**	(593,300)
Depreciation and amortisation expenses	7	**(180,915)**	(209,545)
Impairment of goodwill, intangibles and plant & equipment expenses	7	**(983,088)**	-
Write off of Furneaux facility fee		**(175,000)**	-
Finance costs	7	**(124,838)**	(34,086)
Loss before income tax		**(1,649,942)**	(1,105,827)
Income tax expense	8	**-**	-
Loss from continuing operations after income tax		**(1,649,942)**	(1,105,827)
Other Comprehensive Income		**-**	-
Total Comprehensive loss for the year		**(1,649,942)**	(1,105,827)
Earnings per share (cents per share) - Basic and diluted loss per share	9	**(1.35)**	(1.12)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Notes	**Consolidated 2012 $**	Consolidated 2011 $
Current Assets			
Cash and cash equivalents	10	**353,999**	135,023
Trade and other receivables	11	**946,821**	513,345
Prepayments	12	**-**	50,000
Total Current Assets		**1,300,820**	698,368
Non-current Assets			
Prepayments	12	**-**	150,000
Plant and equipment	13	**-**	121,172
Goodwill and intangible assets	14	**-**	1,017,831
Total Non-current Assets		**-**	1,289,003
Total Assets		**1,300,820**	1,987,371
Current Liabilities			
Trade and other payables	15	**707,328**	626,995
Convertible Notes	16	**-**	531,397
Total Current Liabilities		**707,328**	1,158,392
Total Liabilities		**707,328**	1,158,392
Net Assets		**593,492**	828,979
Equity			
Contributed equity	17	**26,404,522**	25,430,399
Reserves	18	**24,000**	112,842
Accumulated losses	19	**(25,835,030)**	(24,714,262)
Total Equity		**593,492**	828,979

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Share Capital $	Reserves $	Accumulated Losses $	Total Equity $
At 1 July 2011		**25,430,399**	**112,842**	**(24,714,262)**	**828,979**
Loss for the year	19	**-**	**-**	**(1,649,942)**	**(1,649,942)**
Other comprehensive income		**-**	**-**	**-**	**-**
Total comprehensive income		**-**	**-**	**(1,649,942)**	**(1,649,942)**
Transactions with owners in their capacity as owners					
Rights issued	17	**1,487,843**	**-**	**-**	**1,487,843**
PlanetW deferred consideration	17	**142,780**	**-**	**-**	**142,780**
Cash on exercise of share options	17	**63**	**-**	**-**	**63**
Listed options valued	17	**117,720**	**-**	**-**	**117,720**
Transaction costs on share issued	17,18	**(333,678)**	**-**	**(273)**	**(333,951)**
Transferred to accumulated losses	18	**(440,605)**	**(88,842)**	**529,447**	**-**
At 30 June 2012		**26,404,522**	**24,000**	**(25,835,030)**	**593,492**
At 1 July 2010		25,392,930	111,507	(23,608,435)	1,896,002
Profit for the year	19	-	-	(1,105,827)	(1,105,827)
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	(1,105,827)	(1,105,827)
Transactions with owners in their capacity as owners					
Share based payments	18	37,469	16,335	-	53,804
Transaction costs on share issued	18	-	(15,000)	-	(15,000)
At 30 June 2011		**25,430,399**	**112,842**	**(24,714,262)**	**828,979**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

	Notes	**Consolidated 2012 $**	Consolidated 2011 $
Cash flows from operating activities			
Receipts from customers		**2,410,779**	2,102,655
Payments to suppliers and employees		**(2,818,619)**	(3,048,286)
Interest received		**11,376**	6,055
Borrowing costs		**(27,976)**	(34,085)
Net cash used in operating activities	10	**(424,440)**	(973,661)
Cash flows from investing activities		**-**	-
Cash flows from financing activities			
Proceeds from option issued		**-**	1,335
Proceeds from rights issued		**1,487,843**	-
Cash from exercise of share options		**63**	-
Proceeds from convertible notes		**400,000**	531,397
Repayment of convertible notes		**(991,520)**	-
Capital raising costs		**(252,970)**	-
Net cash provided by financing activities		**643,416**	532,732
Net increase/ (decrease) in cash and cash equivalents		**218,976**	(440,929)
Cash and cash equivalents at the beginning of financial year		**130,023**	575,952
Cash and cash equivalents at the end of financial year	10	**353,999**	135,023

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

1. CORPORATE INFORMATION

The consolidated financial report of AdEffective Limited (the **Company** or **AdEffective**) and controlled entities (the **Group**) for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 28 September 2012.

AdEffective is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers AdEffective and controlled entities as a consolidated entity. AdEffective is a listed public company, limited by shares, incorporated and domiciled in Australia.

The financial report has been prepared in accordance with the historical cost convention and, except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. The financial report is presented in Australian dollars.

The following is a summary of material accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Comparatives have been restated where appropriate to ensure consistency and comparability with the current year.

(a) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(b) New accounting standards and interpretations

(i) Changes in accounting policy and disclosures.
The accounting policies adopted are consistent with those of the previous financial year except as follows. The other changes and amendments did not have a significant impact on accounting policies, financial position or performance of the Group is not shown below.

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations applicable to its operations which became mandatory as of 1 January 2011:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

Reference	Title	Application date of standard*	Application date for Group*
AASB 124 (Amendment)	The AASB issued an amendment to AASB 124 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.	1 January 2011	1 July 2011

(ii) Accounting Standards and Interpretations issued but not yet effective.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2012, outlined in the table below:

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1,5,7,101,112,120,121,132,133,134,1039 &1049]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	No impact expected	1 July 2012
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7.	1 January 2013	No impact expected	1 July 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 13	Fair value measurement	AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	No impact expected	1 July 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove individual Key Management Personnel Disclosure Requirements (AASB 124)	This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 July 2013	The impact has yet to be determined	1 July 2013
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities, on the entity's financial position.	1 January 2013	The impact has yet to be determined	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	The impact has yet to be determined	1 July 2015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments	AASB 9 includes requirements for the classifications and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification AASB 139. The main changes are described below. (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial asset; (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income, Dividends in respect of these investments that are a return on investment can be recognized in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI) • The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. (e) Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.	1 January 2015	The impact has yet to be determined	1 July 2015

(c) Basis of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, which AdEffective Limited controlled from time to time during the year and at balance date.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist. All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation.

(d) Going concern basis of accounting

Notwithstanding the loss for the year of $1,649,942 (2011: $1,105,827) and net cash outflows used in operations of $424,440 (2011: $973,661) for the year ended 30 June 2012, the financial report has been prepared on a going concern basis. Although the loss is greater than the loss recorded for the previous corresponding period, it should be noted that the 30 June 2012 result includes impairment, depreciation and amortisation expenses totalling $1,339,003 and finance costs of $121,083 associated with the convertible notes and loan from the directors incurred during the year. In effect, the overall loss if measured excluding impairment, depreciation and amortisation expenses was $310,939, significantly less than compared to 2011 (2011: loss less impairment, depreciation and amortisation was $896,282).

The directors are confident that the combination of careful management of overheads, the continuation of its revenue growth from the Footar Division and sustaining AdFeed Division, and the potential to raise capital should circumstances require, provides sufficient funds to meet ongoing capital requirements of the Group and the Company for the foreseeable future.

Whilst there is significant uncertainty, the directors consider it appropriate to prepare the accounts on a going concern basis as they are satisfied that based on the factors outlined, the Group will be able to meet its debts as and when they become due and payable for a period of at least 12 months from the date of this report.

Accordingly without funding from positive operating cash flows and ability to raise capital if required, there would be a material uncertainty as to whether the consolidated entity would be able to continue as a going concern and therefore whether it would be able to realise its assets and extinguish its liabilities in the normal course of business, and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded assets amounts or to the amounts or classifications of liabilities that might be necessary should the Group not continue as a going concern.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of the payment and excluding taxes or duty. The Group assesses its revenue from the provision of services to customers is recognised upon delivery of the service to the customer. Revenue from internet advertising is recognised on the basis of underlying performance of key contracted metrics, for which revenue is contracted.

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

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or any accumulated impairment losses, if any.

The carrying amount of plant and equipment is reviewed for impairment annually by the Directors for events or changes in circumstances that indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount

Depreciation

The depreciable amounts of fixed assets are depreciated on a straight-line basis or diminishing balance basis as appropriate over their estimated useful lives commencing from the time the asset is held ready for use.

The useful life for plant and equipment is 5 years (2011: 2 to 10 years).

(h) Goodwill and intangibles

Goodwill

Goodwill on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entities at the date of acquisition.

Goodwill is not amortised but is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses.

Intangible assets

Intangible assets acquired in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

(i) Impairment of property, plant, equipment, goodwill and intangible assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information, If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income, unless the asset is carried at revalued amount in which case the impairment loss is treated as a revaluation decrease.

(j) Income tax and other taxes

Current income tax expense is the tax payable on the current year's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

(j) Income tax and other taxes (cont'd)

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

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

Tax Consolidation

AdEffective Limited and its wholly-owned subsidiary have formed an income tax consolidated group under tax consolidation legislation.

The head entity, AdEffective Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables, which are stated with the amount of GST included

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

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

(k) Financial instruments

Classification

The group classifies its financial instruments in the following categories: loans and receivables and financial liabilities. The classification of investments depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Loans and Receivables

Loan and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Financial Liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised fair value and carried at amortised cost, comprising original debt less principal payments and amortisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

(l) Foreign Currencies

Functional and Presentation Currency

The financial statements of each group entity are measured using its functional currency, which is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, as this is the parent entity's functional and presentation currency.

Transactions and Balances

Transactions in foreign currencies of entities within the consolidated entity are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

Resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.

Group Companies

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

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- All resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve as a separate component of equity in the balance sheet.

(m) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

(n) Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs.

On issuance of the convertible note, the fair value of the liability component is determined using a market rate for an equivalent convertible bond and this amount is carried as a liability on an amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholder's equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Interest on the liability component of the instrument is recognised as an expense in profit and loss.

Transaction costs are apportioned between the liability and equity components of the convertible note based on the allocation of proceeds to the liability and equity component when the instruments are first recognised.

(o) Share based payments

Equity settled transactions

The Group provides benefits to the directors in the form of share options under the AdEffective Share Option Plan. These are equity settled transactions under Australian Accounting Standards.

The cost of these equity-settled transactions with directors is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the binomial option model, further details of which are given in note 17.

(o) Share based payments (cont'd)

In valuing equity-settled transactions, no account is taken of any non-market vesting conditions.

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated less the amounts already charged in previous periods. There is a corresponding entry to equity.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see note 9).

(p) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash, receivables and other receivables, payables and other payables.

The Group manages its exposure to key financial risks, including interest rate risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate risk and assessments of market forecasts for interest rates. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for interest rate risk, credit allowances and future cash flow forecast projections.

Risk exposures and responses

Interest rate risk

At balance date, the Group had the following financial asset exposed to Australian variable interest rate risk. The Group has no floating interest rate exposure on financial liabilities as the Group has no floating rate debt.

	Consolidated 2012 $	Consolidated 2011 $
Financial assets		
Cash and cash equivalents	**353,999**	135,023
Net exposure	**353,999**	135,023

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

Interest rate risk (cont'd)

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date:

At 30 June 2012, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit/(loss) and other comprehensive income would have been affected as follows:

	Post Tax Profit/(Loss)		**Other Comprehensive Income**	
	Higher/	**(Lower)**	**Higher/**	**(Lower)**
	2012	2011	**2012**	2011
	$	$	**$**	$
Consolidated				
+1% (100 basis points)	**3,540**	1,350	**-**	-
-0.5% (50 basis points)	**(1,770)**	(675)	**-**	-

The movements in post-tax profit/(loss) and other comprehensive income are due to higher cash balances on hand as at 30 June 2012. The sensitivity is higher in 2012 than in 2011 because the cash balance in 2012 is higher.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group trades only with recognised, creditworthy third parties and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are assessed as to creditworthiness, including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for individual customers.

There were two customers with $853,296 making up 96% of the debtors balance at 30 June 2012.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Foreign currency risk

The Group generates its revenue and major purchases denominated in United States dollars. Hence, the Group's statement of financial position can be affected significantly by movements in the US$/A$ exchange rates. The Group do not have a hedge policy in place.

Approximately 43% of the Group's sales and 40% cost are denominated in US$ whilst 60% of costs are denominated in the functional currencies.

At balance date, the Group had the following exposure to US$ foreign currency that is not designated in cash flow hedges:

	Consolidated	Consolidated
	2012	2011
	$	$
Financial assets		
Trade and other receivables	**377,625**	178,875
Financial liabilities		
Trade and other payables	**601,742**	290,733
Net exposure	**(224,117)**	(111,858)

At 30 June 2012, the Group has not hedged its US$ sales or purchases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

Foreign currency risk (cont'd)

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the balance sheet date:

At 30 June 2012, if Australian Dollar had moved, as illustrated in the table below, with all other variables held constant, post tax profit/(loss) and other comprehensive income would have been affected as follows:

	Post Tax Profit/(Loss)		**Other Comprehensive Income**	
	Higher/	**(Lower)**	**Higher/**	**(Lower)**
	2012	2011	**2012**	2011
	$	$	**$**	$
Consolidated				
AUD to US Dollar +15% (2011: +15%)	**29,233**	14,590	**-**	-
AUD to US Dollar -15% (2011: -15%)	**(39,550)**	(19,740)	**-**	-

The movements in post-tax profit/(loss) and other comprehensive income are due to higher net exposure balance as at 30 June 2012. The sensitivity is higher in 2012 than in 2011 because net exposure balance for 2012 is higher.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank facilities, a convertible note facility and equity raisings.

At 30 June 2012, 100% of the Group's debt will mature in less than one year (2011: 100%).

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities. The respective undiscounted cash flows for the respective upcoming fiscal periods are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2012.

The remaining contractual maturities of the Group's financial assets and liabilities are:

Year ended 30 June 2012	**< 6 months $000**	**6-12 months $000**	**1-5 years $000**	**> 5 years $000**	**Total $000**
Financial assets					
Cash and cash equivalents	**353,999**	**-**	**-**	**-**	**353,999**
Trade and other receivables	**946,820**	**-**	**-**	**-**	**946,820**
	1,300,819	**-**	**-**	**-**	**1,300,819**
Financial liabilities					
Trade and other payables	**707,328**	**-**	**-**	**-**	**707,328**
	707,328	**-**	**-**	**-**	**707,328**
Net maturity	**593,491**	**-**	**-**	**-**	**593,491**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

Liquidity risk (cont'd)

Year ended 30 June 2011	< 6 months $000	6-12 months $000	1-5 years $000	> 5 years $000	Total $000
Financial assets					
Cash and cash equivalents	135,023	-	-	-	135,023
Trade and other receivables	563,345	-	-	-	563,345
	698,368	-	-	-	698,368
Financial liabilities					
Trade and other payables	626,995	-	-	-	626,995
Convertible notes	531,397	-	-	-	531,397
	1,158,392	-	-	-	1,158,392
Net maturity	(460,024)	-	-	-	(460,024)

Maturity analysis of financial assets and liabilities based on management's expectation.

Management's expectation reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial obligations mainly originate from the financing of assets used in the Group's ongoing operations such as property, plant and equipment and investments in working capital, e.g. trade receivables. These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future assets, the Group has established risk reporting covering its business units that reflect expectations of management of expected settlement of financial assets and liabilities.

All financial assets and liabilities are payable within six months of balance date. Accordingly, the book value of each liability is equivalent to its fair value.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are based on past performance and management's expectations for the future.

Critical accounting estimates and assumptions

In the preparation of the consolidated financial statements, the Directors are required to make estimates, judgements and assumptions that affect the application of accounting policies and the reported carrying values of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, Revisions to accounting estimates are recognised in the period in which the estimates 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. In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are below:

(a) Share-based payment transactions (listed options)

The Group measures the cost of equity-settled transactions with other parties by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

(b) Impairment of goodwill, intangible assets and plant and equipment

The Group tested whether goodwill, intangible assets and plant and equipment have suffered any impairment in accordance with the accounting policy stated in note (i). The recoverable amounts of these assets are determined based on the higher of fair value less costs to sell and value in use. The assessments derived are outlined in Note 13 & 14. However, we note that both methods were considered to be nil.

5. PARENT ENTITY INFORMATION

Information relating to AdEffective Ltd - Parent:	**2012 $**	2011 $
Current assets	**353,901**	334,682
Total assets	**353,901**	2,048,078
Current liabilities	**72,188**	765,990
Total liabilities	**72,188**	765,990
Issued capital	**26,404,522**	25,430,399
Accumulated losses	**(26,146,809)**	(24,261,153)
Share based payments reserve	**24,000**	112,842
Total shareholders' equity	**281,713**	1,282,088
Loss of the parent entity	**(2,414,829)**	(805,056)
Total comprehensive income of the parent entity	**(2,414,829)**	(805,056)

There are no guarantees entered into by the parent entity in relation to the debts of its subsidiary.

The parent entity has no contingent liabilities.

The parent entity has no contractual commitments for the acquisition of property, plant or equipment.

6. REVENUE

	Consolidated 2012 $	Consolidated 2011 $
Revenue from operating activities		
Sale of services	**2,620,459**	2,132,559
Total sales revenue	**2,620,459**	2,132,559
Other income		
Bank interest receivable	**4,876**	6,055
Sale of domain names	**6,500**	-
Total other income	**11,376**	6,055

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

7. EXPENSES

	Consolidated 2012 $	Consolidated 2011 $
Direct Costs	**1,696,356**	1,321,464
	1,696,356	1,321,464
Employee benefits expense		
Wages, salaries and contractors	**565,619**	934,583
Defined contribution plan expense	**11,745**	65,470
Other employee benefits expense	**12,860**	85,993
Total employee benefits expense	**590,224**	1,086,046
Administrative expenses		
Occupancy costs	**12,310**	76,794
Advertising and marketing expenses	**8,661**	41,712
Communications costs	**38,148**	41,500
Professional fees	**386,189**	305,687
Office administration costs	**1,927**	53,276
Other expenses	**20,544**	74,331
Net foreign exchange differences	**63,577**	-
Bad and doubtful debts expense	**-**	3,003
Total administrative expenses	**531,356**	593,300
Impairment losses		
Impairment loss on goodwill, intangibles and plant & equipment	**983,088**	-
	983,088	-
Depreciation expense		
Depreciation of non-current assets:		
Amortisation	**149,302**	174,387
Plant and equipment	**31,613**	35,158
Total depreciation expense	**180,915**	209,545
Finance costs		
Interest expense:		
Other loans	**96,863**	31,397
Bank interest	**27,975**	2,689
Total finance costs	**124,838**	34,086

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

8. INCOME TAXES

	Consolidated 2012 $	Consolidated 2011 $
Current and deferred tax expense for the year ended 30 June 2012 were $nil (2011: $nil)	-	-
A reconciliation between tax expense and the product of accounting profit/(loss) before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit/(loss) before income tax	**(1,649,942)**	**(1,105,827)**
At the Group's statutory income tax rate of 30% (2011: 30%)	**(494,983)**	(331,748)
Adjustments:		
Impairment of goodwill & intangibles	**294,926**	-
Share based payments	**-**	4,900
Tax losses not brought to account as deferred tax assets	**200,057**	326,848
Income tax benefit reported in the consolidated income statement	-	-

Income tax losses

Unused tax losses for which no deferred tax asset has been recognised	**200,057**	-

Tax Loss Deferred Tax Asset recognition

Deferred tax assets will only be recognised if:

a) future assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised;
b) the conditions for deductibility imposed by tax legislation are complied with; and
c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

Unused tax losses for which no deferred tax asset has been recognised comprise current year estimated tax losses only and are not yet confirmed.

Tax losses pre 2011 are not recognised because they are not expected to meet the continuity of ownership and same business tests.

Unrecognised temporary differences

At 30 June 2012 there are no temporary differences recognised in the balance sheet, on the basis of an assessment that recovery through future taxable income of those amounts is not probable at 30 June 2012 (2011: nil).

Tax consolidation

The Company and its subsidiaries have formed a tax consolidated group as at the date of this report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	Consolidated 2012	Consolidated 2011
Basic and diluted earnings per share	**(1.35) cents**	(1.12) cents
Net loss for the year	**($1,649,942)**	($1,105,827)
Weighted average number of ordinary shares used in calculating basic earnings per share	**121,825,174**	98,843,523
Weighted average number of ordinary shares used in calculating diluted earnings per share	**121,825,174**	98,843,523

10. CASH AND CASH EQUIVALENTS

	Consolidated 2012 $	Consolidated 2011 $
Cash at bank and in hand	**353,999**	135,023
	353,999	135,023

Cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at bank earns interest at floating rates based on daily bank deposit rates. Deposits at call earn interest at short-term deposit rates.

	Consolidated 2012 $	Consolidated 2011 $
Reconciliation of net profit/(loss) after tax to net cash flows from operations		
Net loss	**(1,649,942)**	(1,105,827)
Adjustments for:		
Bad debt written off	**-**	3,003
Depreciation of non-current assets	**31,613**	35,158
Amortisation	**149,302**	174,387
Impairment for goodwill, intangibles and plant & equipment expense	**983,088**	-
Write off of Furneaux facility fee	**175,000**	-
Share based payments	**-**	37,469
Finance cost on expensed of share options valued	**36,739**	-
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	**(433,476)**	(221,055)
Increase/(decrease) in trade and other payables	**283,236**	103,204
Net cash used in operating activities	**(424,440)**	(973,661)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

10. CASH AND CASH EQUIVALENTS (cont'd)

	Consolidated 2012 $	Consolidated 2011 $
Facilities		
Equity Line of Credit and Convertible Note Facility – Furneaux Equity	**5,000,000**	5,000,000
Total	**5,000,000**	5,000,000
Facilities used at reporting date		
Equity Line of Credit and Convertible Note Facility – Furneaux Equity	**-**	-
Total	**-**	-
Facilities unused at reporting date		
Equity Line of Credit and Convertible Note Facility – Furneaux Equity	**5,000,000**	5,000,000
Total	**5,000,000**	5,000,000

In July 2010 the Group announced that it had entered into a $5,000,000 Equity Finance Facility with Furneaux Equities Limited. Under the facility the Group can draw down up to $250,000 in any 30 day period subject to the Company's ability to issue equity, including any approvals of shareholders where the 15% threshold is met. At the date of this report the facility remained undrawn.

11. RECEIVABLES (CURRENT)

	Consolidated 2012 $	Consolidated 2011 $
Trade receivables	**890,050**	468,830
Provision for doubtful debts	**-**	-
	890,050	468,830
Other receivables	**56,771**	44,515
	946,821	513,345

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

(i) Trade receivables are non-interest bearing and generally on 60 day terms (2011: 45 days).
(ii) Other receivables are non-interest bearing and have repayment terms between 30 and 90 days.
(iii) For terms and conditions relating to related party receivables refer to note 25.

(b) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 60 day terms (2011: 45 days). A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. There is no impairment loss recognised by the Group during the year (2011: $nil).

Movements in the provision for impairment loss were as follows:

	Consolidated 2012 $	Consolidated 2011 $
At 1 July	-	-
Charge for the year	-	-
Amounts written off	-	-
At 30 June	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

11. RECEIVABLES (CURRENT) (cont'd)

(b) Allowance for impairment loss (cont'd)

At 30 June, the ageing analysis of trade receivables is as follows:

		Total	60 days	61-90 days PDNI*	+91 Days
2012	**Consolidated**	**890,050**	**743,005**	**147,045**	**-**
2011	Consolidated	468,830	458,199	10,631	-

*Past due not impaired ('PDNI')

Receivables past due but not considered impaired are: $147,045 (2011: $10,631l). Payment terms on these amounts have not been re-negotiated however credit has been stopped until full payment is made.

Other balances within trade and other receivables do not contain impaired assets and are not past due.

(c) Related party receivables

For terms and conditions of related party receivables refer to note 25.

(d) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value has been assessed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

(e) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 3.

12. PREPAYMENTS

	Consolidated 2012 $	Consolidated 2011 $
Current assets		
Prepaid facility fee *(a)*	**-**	50,000
Non-current assets		
Prepaid facility fee *(a)*	**-**	150,000

(a) *Prepayment in respect of the Furneaux Equity finance facility which was executed in July 2010. The prepayment was fully expensed in 2012 due to the Directors believed that it is unlikely that the Company will drawdown the facility, particularly on its certain term and conditions. Hence it was decided to expense off its remaining facility fee from the consolidated statement of financial position.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

13. PLANT AND EQUIPMENT

	Consolidated 2012 $	Consolidated 2011 $
(a) Carrying values		
Plant and equipment:		
At cost	**158,051**	158,051
Accumulated depreciation	**(68,489)**	(36,879)
Impairment	**(89,562)**	-
Net carrying amount	**-**	121,172

As at 30 June 2012, the Group wrote off the net carrying amount of the PlanetW assets in conjunction with the impairment of goodwill and intangible assets write off. Refer to Note 14 for further explanation.

(b) Reconciliations

Reconciliations of the carrying amounts at the beginning and end of the period:

	Plant and Equipment 2012 $	Plant and Equipment 2011 $
Consolidated entity		
Balance at the beginning of the year	**121,172**	156,330
Depreciation expense	**(31,610)**	(35,158)
Impairment expense	**(89,562)**	
Balance at the end of the year	**-**	121,172

14. GOODWILL AND INTANGIBLE ASSETS

	Consolidated 2012 $	Consolidated 2011 $
(a) Carrying values		
Goodwill	**789,789**	789,789
Intangible assets	**373,160**	373,160
Accumulated amortisation	**(269,423)**	(145,118)
Impairment of goodwill and intangible assets	**(893,526)**	-
Net carrying amount	**-**	1,017,831

(b) Reconciliations

Reconciliations of the carrying amounts at the beginning and end of the period:-

	2012 $	2011 $
Consolidated entity		
Balance at the beginning of the year		
- Goodwill through acquisition	**789,789**	789,789
- Intangible assets identified through acquisition	**228,042**	373,160
Amortisation expense	**(124,305)**	(145,118)
Impairment of goodwill and intangible assets expense	**(893,526)**	-
Balance at the end of the year	**-**	1,017,831

During the year, the Group tested goodwill for impairment. Due to the difficulty economic conditions affecting the Group's industry, and changes to the Group's operating results and forecasts, the Group recognised impairment loss of $789,789 resulted from a material decline in the budgeted financial performance of the Group over the first six months and lower growth expectations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

14. GOODWILL AND INTANGIBLE ASSETS (cont'd)

The impairment loss was due to continued operating losses. As a result, the carrying value of goodwill exceeded its recoverable amount. After the impairment loss, no goodwill remains as at 30 June 2012.

As at 30 June 2012, the Group also wrote off the intangible assets, mainly those associated with the acquired PlanetW Pty Ltd advertising assets. The group wrote off these intangible assets due to revenues for the AdFeed Division decreasing compared to previous financial years and expected future challenges faced in the Global online advertising search syndication marketplace. As such the Group was not expecting significant growth from this Division. After allocation of related corporate and administrative expenses, the AdFeed Division is not expected to generate positive cash flow.

15. TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated 2012 $	Consolidated 2011 $
Trade payables	**556,353**	374,166
Other payables	**139,230**	122,026
Related parties	**11,745**	130,803
	707,328	626,995

(a) Terms and conditions

Terms and conditions relating to the above financial instruments:
(i) Trade payables are non-interest bearing and are normally settled on 30-day terms.
(ii) Other creditors are non-interest-bearing and are normally payable within 30 and 90 days
(iii) Details of the terms and conditions of related party payables are set out in notes 25.

(b) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

(c) Related party payables

For details of related party payables refer to note 25.

(d) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 3.

16. CONVERTIBLE NOTES (CURRENT)

	Consolidated 2012 $	Consolidated 2011 $
Convertible Notes	**-**	531,397
	-	531,397

Reconciliations

Reconciliations of the carrying amounts at the beginning and end of the period:-

Balance at the beginning of the year	**531,397**	-
Issued of Convertible Notes	**400,000**	500,000
Interest payable	**60,123**	31,397
Repayment of Convertible Notes including interest	**(991,520)**	-
Balance at the end of the year	**-**	531,397

In December 2011, $200,000 convertible notes with interest of $24,241 were redeemed by a Note-holder. At the same time, $400,000 convertible notes were issued to new Note-holders. Each note has a face value of $25,000 and the notes bear interest at a rate of 12% per annum on the face value of the notes. The total convertible notes of $700,000 with interest of $60,123 as at 11 April 2012 were repaid on 14 April 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

17. CONTRIBUTED EQUITY

(a) Issued and paid up capital

	Consolidated 2012 $	Consolidated 2011 $
Ordinary shares		
Ordinary shares fully paid	26,620,480	24,989,794
Listed options	117,720	440,605
Share issue costs	(333,678)	-
Contributed equity	26,404,522	25,430,399

Movements in ordinary shares on issue	Number of Shares	$	Number of Shares	$
Opening balance	**4,959,473,337**	**24,989,794**	4,922,004,599	24,952,325
Shares issued during the year:				
Issue of shares on 20 December 2010	**-**	**-**	37,468,738	37,469
Share consolidation on 17 Feb 2012	**(4,860,283,817)**	**-**	-	-
Issue of rights issue on 5 April 2012	**25,787,586**	**386,814**	-	-
Issue of Rights issue on 12 April 2012	**73,401,934**	**1,101,029**	-	-
PlanetW deferred consideration on 18 April 2012	**9,518,667**	**142,780**	-	-
Cash on exercise of listed options	**4,214**	**63**	-	-
Transaction costs relating to rights issue	**-**	**(333,678)**	-	-
Closing balance	**207,901,921**	**26,286,802**	**4,959,473,337**	**24,989,794**

Terms and conditions of ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(b) Listed options

Movements in listed options over ordinary shares	2012 Number of Options	2012 $	2011 Number of Options	2011 $
Opening balance	**260,302,342**	**440,605**	260,302,342	440,605
Listed options issued during the year:				
Expired share options	**(260,302,342)**	**(440,605)**	-	-
Issue of 25,787,586 options on 5 April 2012 exercisable at $0.015 expiring 30 June 2014	**25,787,586**	**-**	-	-
Issue of 73,401,934 options on 12 April 2012 exercisable at $0.015 expiring 30 June 2014	**73,401,934**	**-**	-	-
Issue of 33,063,174 underwriting options on 12 April 2012 at fair value of $0.0024 per option with exercisable at $0.015 expiring 30 June 2014	**33,063,174**	**80,981**	-	-
Issue of 15,000,000 options as part consideration to the lenders of convertible loans in accordance with the terms of the deeds on 15 May 2012	**15,000,000**	**36,739**	-	-
Issue of 10 options on 21 May 2012 under the Company's prospectus dated 16 May 2012	**10**	**-**	-	-
Exercise of options	**(4,214)**			
Closing balance	**147,248,490**	**117,720**	260,302,342	440,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

17. CONTRIBUTED EQUITY (cont'd)

These options were issued on Rights Issue Offer during the year to new and existing shareholders. All options are vested as at the date of grant. In the total options of 147,252,704, there were 33,063,174 options issued to the Underwriter which was considered as a transaction cost relating to rights issue and it was valued in accordance to AASB2. Hence a fair value on these options was performed as shown below.

Fair value of listed options

The market value of ordinary shares in AdEffective Limited closed at 1.1 cents per share on 30 June 2012 (5 cents per share on 30 June 2011).

The fair value of each option has been estimated at the date of grant using the option-pricing model with the following weighted average assumptions used:

	2012
Dividend yield	Nil
Expected volatility	50%
Risk-free interest rate	5.0%
Expected life of option	2 years

The dividend yield reflects the assumption that no dividends will be paid by the Company for the foreseeable future. The expected life of the options is based on the term of the options and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. All options issued to date have vested.

18. RESERVES

	Consolidated 2012 $	Consolidated 2011 $
Options granted reserve		
Balance at beginning of financial year	**112,842**	111,507
Net movement for the year	**(88,842)**	1,335
Balance at end of financial year	**24,000**	112,842

Nature and Purpose of Options Granted Reserve

This reserve is used to record the value of share based payments arises on the grant of share options to employees, including key management personnel, as part of their remuneration under the employee share option plan, refer note 21.

Unlisted options

In accordance with the provisions of the employee share option plan, the outstanding unlisted options during the financial year and as at 30 June 2012 are set out below:-

	2012 Number of Options	**2012 Weighted Average Exercise Price**	2011 Number of Options	2011 Weighted Average Exercise Price
Balance at beginning of year	**130,000,000**	**$0.002**	186,000,000	$0.002
Granted	**-**	**-**	50,000,000	$0.002
Expired	**-**	**-**	(106,000,000)	$0.002
Forfeited	**-**	**-**	-	-
Other changes during the year*	**(127,400,000)**	**$0.002**	-	-
Balance at end of year	**2,600,000**	**$0.10**	130,000,000	$0.002
Exercisable at end of year	**2,600,000**	**$0.10**	130,000,000	$0.002

**Share consolidation of 50 to 1 fully paid ordinary share basis on 17 February 2012.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

18. RESERVES (cont'd)

These options were issued to directors and ex-director on 8 December 2010 and 30 April 2010 at various expiry dates between 8 December 2015 and 30 April 2015. No new options were issued or exercised during the year or until the date of this report.

19. ACCUMULATED LOSSES

	Consolidated 2012 $	Consolidated 2011 $
Balance at beginning of financial year	**(24,714,262)**	(23,608,435)
Net loss for the year	**(1,649,942)**	(1,105,827)
Transferred from reserves	**529,174**	-
Balance at end of financial year	**25,835,030**	(24,714,262)

20. COMMITMENTS

At 30 June 2012, the Company had not entered into any operating and finance lease commitments (2011: nil).

21. EMPLOYEE ENTITLEMENTS

(a) Unlisted share options

Under the Group's Company Share Option Plan for Directors, employees and contractors of the Company under which the Board can issue options at no cash consideration to purchase fully paid ordinary shares in the Company on the basis of one option for one share at an exercise price to be determined by the Board at the time the options are issued. Options will be exercisable from the time of issue and will lapse on the fifth anniversary of the date of grant if they have not been exercised before that time. Options can be issued up to a maximum of 10% of the issued share capital of the Company. The options cannot be transferred and will not be quoted on the ASX. Eligible persons under the Company Share Option Plan are Directors, employees and contractors of the Company. If the Directorship, employment or contract of the participant terminates, the participant may, within 28 days after the date of termination, exercise all or part of those of the participant's options. Any option not exercised within that 28 day period will lapse. For details of options outstanding and movements in options during the financial year, refer note 18.

22. CONTINGENT ASSETS AND LIABILITIES

The Company had no contingent assets and liabilities as at 30 June 2012 (2011: nil).

23. AFTER BALANCE DATE EVENTS

No matter or circumstance has occurred or been identified since 30 June 2012 to the date of this report, that has significantly affected, or may significantly affect the Group's continuing business operations.

24. AUDITOR'S REMUNERATION

	Consolidated 2012 $	Consolidated 2011 $
Amounts received or due and receivable by Ernst & Young for:		
An audit or review of the financial report of the entity and any other entity in the consolidated entity	78,780	70,268
Other services	-	7,000
	78,780	77,268

25. RELATED PARTY DISCLOSURE

(a) Subsidiary

The consolidated financial statements include the financial statement of AdEffective Limited and the subsidiary listed in the following table:-

Name of entity	Country of Incorporation	% of Equity interest		Investment	
		2012 %	2011 %	**2012 $**	2011 $
AdEffective Business Networks Pty Ltd	Australia	**100**	**100**	**-**	**-**

(b) Ultimate parent

The consolidated financial statements include the financial statements of AdEffective Limited and its controlled entities. AdEffective Limited is the ultimate parent company.

(c) Inter-group transactions

Loans

There is no inter-group loan during the year as the previous Swish Group Limited and its subsidiary entities had been put through the administration process.

(d) Other related party transactions

During the financial year ended 30 June 2012, no other related party transactions took place (2011: nil).

(e) Details of Key Management Personnel during the financial year

(i) Directors

Mr. Andrew Plympton	Non-Executive Chairman
Mr. Damian London	Executive Director & Chief Executive Officer
Ms Sophie Karzis	Director (appointed on 20 January 2012)
Mr. Barry Green	Director (resigned on 20 January 2012)

(f) Remuneration options: granted and vested during the year

No options were granted as part of Directors' remuneration during the year ended 30 June 2012 (2011: 50,000,000)

(g) Shares issued on exercise of remuneration options

No shares were issued in the financial year ended 30 June 2012 as a result of the exercise of remuneration options (2011: Nil).

(h) Unlisted Option holdings of Directors

	Balance at 1 July 2011 No.	Issued during year No.	Other changes during the year No.**	Lapsed during year No.	Exercised during year No.	Balance at 30 June 2012 No.
Director						
Mr Andrew Plympton	30,000,000	-	(29,400,000)	-	-	600,000
Mr Damian London	50,000,000	-	(49,000,000)	-	-	1,000,000
Mr Barry Green*	-	-	-	-	-	-
Ms Sophie Karzis	-	-	-	-	-	-
Total	80,000,000	-	(78,400,000)	-	-	1,600,000

** Resigned on20 January 2012.*
*** Share consolidation of 50 to 1 fully paid ordinary share basis on 17 February 2012.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

25. RELATED PARTY DISCLOSURE (cont'd)

(i) Shareholdings of Directors

Director	Balance at 1 July 2011 No.	Issued during year No.	Other changes during year No.**	Cancelled during year No.	Sold during year No.	Balance at 30 June 2012 No.
Mr Andrew Plympton	-	-	-	-	-	-
Mr Damian London	50,000,000	33,518,667***	(49,000,000)	-	-	34,518,667
Mr Barry Green*	11,350,000	-	(11,123,000)	-	-	227,000
Ms Sophie Karzis	-	-	-	-	-	-
Total	61,350,000	33,518,667	(60,123,000)	-	-	34,745,667

**Resigned on 20 January 2012.*
*** Share consolidation of 50 to 1 fully paid ordinary share basis on 17 February 2012.*
**** 9,518,667 shares were issued in lieu of deferred cash consideration (more specifically an "earn-out") calculated in 2010 which was included in the AdFeed division result.*

(j) Shareholdings of Executives

No Executives hold any shares in the Company other than the Executive Directors detailed in the table above.

(k) Compensation of key management personnel of the Group

	Short Term Benefits $	Post-Employment Benefits $	Equity: Number of Options/ Shares Granted No.	Equity: Value of Options / Shares Granted $	Total $
2012	**242,673**	**11,745**	**-**	**-**	**254,418**
2011	$696,616	$31,643	549,375 shares* 1,000,000 options*	$37,468 $16,335	$782,062

**Post consolidation of 50 to 1 fully paid ordinary share basis on 17 February 2012.*

(l) Loans to Directors

There were no loans made to Directors during the financial year and none are outstanding as at the date of this report.

(m) Other transactions and balances with Directors

Loans with Director-related entities

There were no loans with Director-related entities during the financial year and none are outstanding as at the date of this report.

Payables to Director-related entities

	Consolidated 2012 $	Consolidated 2011 $
Related party payables		
Accrued superannuation payable to Directors	**11,745**	128,643
Accrued fees payable to Non-Executive Directors	**2,200**	2,160
Total related party payables	**13,945**	130,803

Other transactions with Director-related entities

During the financial year ended 30 June 2012 there were no other transactions with Director-related entities (2011: nil), other than the payment of certain expenses on behalf of the Company by Planet W Pty Ltd, a company that Mr Damian London has an interest in.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

26. SEGMENT INFORMATION

Identification of reportable segments

The Group has identified its operating segments based on the information used by management in assessing the performance of the Group, and determining investment requirements. The operating segments are based on the manner in which services are provided to a market.

The Group has two operating segments being the AdFeed, the syndication online advertising business and Footar, the premium ad unit.

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 2 to the financial report.

No comparative operating segments are disclosed because there was only AdFeed, one operating segment in 2011.

Operating Segments

	2012		
	AdFeed	**Footar**	**Consolidated**
	$	**$**	**$**
Segment Revenue			
External Sales	1,754,826	865,633	2,620,459
Total segment revenue	1,754,826	865,633	2,620,459
Segment net profit/(loss) before tax	**111,939**	**(89,521)**	**22,418**
Reconciliation of segment result to group net profit			
Impairment of goodwill and intangibles			**(983,088)**
Write off of Furneaux facility fee			**(175,000)**
Finance Cost			**(124,838)**
Corporate costs	**-**	**-**	**(389,434)**
Group net loss before tax	**-**	**-**	**(1,649,942)**
Assets			
Segment assets	**946,919**	**-**	**946,919**
Corporate asset	**-**	**-**	**353,901**
Total Group Assets	**-**	**-**	**1,300,820**
Liabilities			
Segment liabilities	**(635,141)**	**-**	**(635,141)**
Corporate liability	**-**	**-**	**(72,187)**
Total Group Liabilities	**-**	**-**	**(707,328)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

26. SEGMENT INFORMATION (cont'd)

Revenue from external customers by geographical location is not available and the cost to develop it would be excessive.

(a) Major customers

Sales from customer A account for 98% of AdFeed 2012 revenue. The customer is in the AdFeed division and generated revenue of $1,719,922 (2011: $2,094,227)

Sales from customer B account for 97% of Footar 2012 revenue. The customer is in the Footar division and generated revenue of $839,234 (2011: nil).

DIRECTORS' DECLARATION
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

In the opinion of the Directors, the financial statements and notes of AdEffective Limited and its controlled entities are in accordance with the Corporations Act 2001:

(a) Comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) Give a true and fair value of the financial position of the Group as at 30 June 2012 and of their performance as represented by the results of their operations, change in equity and their cash flows for the year ended on that date;

In the Directors' opinion there are reasonable grounds to believe that AdEffective Limited will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the managing director to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2012.

The financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards board.

Andrew Plympton
Non-Executive Chairman

Melbourne, 27 September 2012

ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

Independent auditor's report to the members of AdEffective Limited

Report on the financial report

We have audited the accompanying financial report of AdEffective Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity'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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

ERNST & YOUNG

a. the financial report of AdEffective 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 Note 2.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2 (d) in the financial report which indicates that the consolidated entity has continued to incur operating cash outflows during the year ended 30 June 2012.

The ability of the consolidated entity to continue as a going concern is dependent upon the consolidated entity being successful in:

- generating positive operating cashflows from its existing and newly acquired businesses;
- continuing its revenue growth from the Footar Division and sustaining performance in the AdFeed Division; and
- raising capital to fund the Company's growth plans.

Unless the consolidated entity has access to funds as set out above, there is significant uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern

Report on the remuneration report

We have audited the Remuneration Report included in pages 11 to 14 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.

Opinion

In our opinion, the Remuneration Report of AdEffective Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Robert Dalton
Partner
Melbourne
27 September 2012

ASX SECURTIES EXCHANGE INFORMATION

Number of Holdings of Equity Securities as at 25 September 2012

The fully paid issued capital of the Company consisted of 207,901,921 ordinary fully paid shares held by 1,690 shareholders. Each share entitles the holder to one vote.

There are 147,248,490 listed options over ordinary shares, expiring on 30 June 2014 and exercisable at $0.015 each. The options do not carry a right to vote.

There are 1,600,000 unlisted options over ordinary shares, expiring on 30 April 2015 and exercisable at $0.10 each. The options do not carry a right to vote.

There are 1,000,000 unlisted options over ordinary shares, expiring on 8 December 2015 and exercisable at $0.10 each. The options do not carry a right to vote.

Distribution of Holders of Equity Securities as at 25 September 2012

Range	Total holders	Units	% Issued capital
1 – 1,000	1,069	141,259	0.07
1,001 – 5,000	202	544,306	0.26
5,001 – 10,000	95	750,429	0.36
10,001 – 100,000	181	6,988,574	3.36
100,001 – 999,999,999	143	199,477,353	95.95
1,000,000,000 – 9,999,999,999	0	0	0.00
Rounding			0.00
Total	1,690	207,901,921	100.00

Unmarketable Parcels as at 25 September 2012

Unmarketable Parcels	Minimum parcel size	Holders	Units
Minimum $ 500.00 parcel at $ 0.016 per unit	31,250	1,468	3,415,465

Substantial Shareholders as at 25 September 2012

Rank	Shareholder	No.	%
1.	PLANET W PTY LTD	33,518,667	16.12
2.	CHRIS RETZOS	18,899,191	9.09
3.	MP3 AUSTRALIA PTY LTD	16,470,384	7.92

Twenty Largest Holders of Quoted Equity Securities as at 25 September 2012

Rank	Shareholder	Units	% of issued capital
1.	PLANET W PTY LTD	33,518,667	16.12
2.	MP3 AUSTRALIA PTY LTD <THE MP3 UNIT A/C>	14,200,000	6.83
3.	PENLEIGH BANNER PTY LTD <THE PURSE SUPER FUND A/C>	10,234,428	4.92
4.	T E & J PASIAS PTY LTD	9,000,000	4.33
5.	SAM GOULOPOULOS PTY LTD <S GOULOPOULOS F/SUPER A/C>	8,500,000	4.09
6.	FURNEAUX EQUITY LIMITED	6,989,819	3.36
7.	NUTSVILLE PTY LTD <INDUST ELECTRIC CO S/F A/C>	5,499,191	2.65
8.	MRS JACLYN STOJANOVSKI + MR CHRIS RETZOS + MRS SUSIE RETZOS <RETZOS EXECUTIVE S/F A/C>	4,500,000	2.16
9.	MARUNGI INVESTMENTS PTY LTD <RETZOS MARUNGI FAMILY A/C>	4,499,191	2.16
10.	ATLANTIS MG PTY LTD <MG FAMILY SUPER FUND A/C>	4,000,000	1.92
11.	EXCITE DIGITAL MEDIA PTY LTD	3,899,191	1.88
12.	G & N LORD SUPERANNUATION PTY LTD <GNR SUPERANNUATION FUND A/C>	3,684,017	1.77
13.	ATLANTIS MG PTY LTD <MG FAMILY A/C>	3,500,000	1.68
14.	SOMNUS PTY LTD <SOMNUS SUPERANNUATION A/C>	3,313,912	1.59
15.	MR RUSSELL HUTCHINSON	3,274,800	1.58
16.	GOFFACAN PTY LTD	3,020,000	1.45
17.	MR CHRIS RETZOS	3,000,000	1.44
18.	BRODEA PTY LTD <GONINON INVESTMENT A/C>	2,566,399	1.23
19.	MR CHRIS RETZOS + MRS SUSIE RETZOS <RETZOS FAMILY S/FUND A/C>	2,500,000	1.20
20.	RETZOS INVESTMENTS PTY LTD <RETZOS ALTONA PROPERTY A/C>	2,500,000	1.20
Top 20 Holders of Ordinary Fully Paid Shares as at 25 September 2012		132,199,615	63.59
Total Remaining Holders Balance		75,702,306	36.41

Other Information

The name of the Company Secretary is Ms Sophie Karzis. The address of the principal registered office in Australia, and the principal administrative office, is Level 3, 1 Collins Street, Melbourne Victoria 3000 Australia, telephone is +61 (0) 3 9286 7500. The Company is listed on the Australian Securities Exchange. The home exchange is Melbourne. Registers of securities are held by Computershare Investor Services Pty Ltd, Yarra Falls, 452 Johnston Street, Abbotsford, 3067, Victoria, local call is 1300 850 505, international call is + 61 3 9415 4000.