ADEFFECTIVE LIMITED
AND CONTROLLED ENTITIES
ABN 93 085 545 973

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2013

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CHAIRMAN'S LETTER

Dear Shareholder

The Year in Review

It is pleasing to report to shareholders that for the year ended 30 June 2013, AdEffective Limited (the **Company**) and its controlled entities (the **Group**) recorded a maiden profit of $45,471. This result marks the best full year financial result since the Company's relisting on the ASX in 2010 and is a significant turnaround on FY2012 results (where the Group recorded a loss of $1,649,942) and was achieved through a combination of increased revenue, an increase in overall average gross profit margin, and the results of the Company's stabilisation process undertaken in FY2012. Specifically, the profit was driven by AdFeed's continuing steady revenues, and bolstered by revenues achieved by the Company's Footar product for the first time during FY2013. In addition, the Group reaped the benefits of the recapitalisation program undertaken in FY2012, following which the Group was able to avoid costs associated with the maintenance of debt. A further factor which assisted in the Group in returning a profitable result was the continued reduction of overheads and corporate costs achieved by management.

In order to streamline the Company's businesses, a decision has been made to merge the AdFeed and Footar businesses into one business unit, the Online Advertising division, which took effect from 1 July 2013. In April 2013 the Company announced that it had commenced the creation of an e-commerce division. The new e-commerce division will sit alongside the Online Advertising division. The Company's creation of an e-commerce division is an extension of its existing businesses and is being initially developed with minimal capital expenditure and resources. The Company executed letters of intent for the purchase of the business assets of Ohki.com.au and Ezydirect.com.au, subject to certain completion milestones being achieved.

Ohki is an online e-commerce store established in 2010, specialising in electronics products, and EzyDirect is an online e-commerce store established in 2006, specialising in electronics and office supply products. The acquisition of Ohki by the Company will complete in early FY2014 and the Company will re-establish operations of the Ohki website and commence trading.

At an operating level, the Company successfully completed the reconstruction of its business around Online Advertising and e-commerce, ceased work on non-performing products and undertook initiatives to ensure the business was capable of further expansion in FY2014.

The Group's results for FY2013 reflect revenues predominantly generated from the AdFeed and Footar businesses (which now comprise the new Online Advertising division), with the e-commerce division yet to generate any revenue. Revenue for the year was $2,778,518 as compared to the prior year of $2,620,459.

FORWARD STRATEGY

The Company's results of a maiden net profit for the year of $45,471 (2012: net loss $1,649,942) were below the board approved budget. A full summary of the results is included in the segment disclosures of the notes to the financial statements in this Annual Report. The AdFeed and Footar businesses (which now comprise the new Online Advertising division) provided steady revenues for the Group and in FY2013 delivered a segment result of net profit $609,153 (2012: $22,418) before finance costs and other corporate expenses. Due to a number of challenges within this industry however, the Company does not expect growth from this channel in the short to medium term, and accordingly the Company has an increased focus on further developing its newly established e-commerce division.

The acquisitions of EzyDirect.com.au and Ohki.com.au will form the base of the e-commerce division and the Company will continue to search for strategic acquisitions associated with e-commerce in

FY2014. The Company is also looking at other opportunities to diversify its business content including additional online revenue streams.

CHIEF EXECUTIVE OFFICER

I would like to take this opportunity, on behalf of my fellow Directors, to welcome Mr Simon Crean to the Company who will assume the role of Chief Executive Officer with effect from 9 September 2013. This change is occurring as a natural development of the Company’s shift of focus from Online Advertising to e-commerce. Accordingly, Mr Damian London, who has been the Company’s CEO since May 2011, resigned from this role in August 2013. Mr. London has a successful proven track record in the Online Advertising sector. As the Company’s e-commerce division is building, it was agreed that a CEO with experience in the e-commerce sector would be beneficial in taking the Company forward. Mr Crean has extensive internet experience including positions with Looksmart, Ericsson, destra, Mercury Mobility and Effective Measure. His extensive internet experience together with his broad commercial background and technical experience make him an ideal candidate for the role of the Company’s CEO and we look forward to his contribution.

While Mr London is resigning as CEO, he continues to be a substantial shareholder of the Company, and will remain as a Non-Executive Director on the Company’s Board. We are grateful that we retain the benefit of his knowledge and experience at the Board level.

We thank Mr London for his outstanding contribution to the Company as both CEO and director. His expertise in Online Advertising and his continued efforts in managing the business have been first class and he has steered the Company through some challenging times. Mr London hands over to Mr Crean a Company that is now trading profitably. Likewise we look forward to receiving the benefit of Mr Crean’s skills and expertise in the e-commerce sector as he develops the business over the coming years.

OUTLOOK

With a solid FY2013 result, the Company is committed to revenue growth in FY2014 and intends to focus on generating additional revenues for the business through its e-commerce division.

The Company will continue to explore options for strategic growth, either through acquisition or partnership, in particular focusing on expansion of the e-commerce division to improve sales revenue in FY2014.

The Company also remains committed to organic growth of its Online Advertising division by focusing its attention on signing up additional partners and clients to its range of online advertising 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 as it develops.

Andrew Plympton
Non-Executive Chairman

Melbourne, 27 September 2013

CORPORATE INFORMATION

DIRECTORS

Andrew Plympton	Non-Executive Chairman
Damian London	Non- Executive Director
Sophie Karzis	Non-Executive Director
Mark Goulopoulos	Non-Executive Director (appointed 1 November 2012)
Domenic Carosa	Non-Executive Director (appointed 18 June 2013)

COMPANY SECRETARY

Sophie Karzis

REGISTERED OFFICE

Level 1
61 Spring 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**)

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 2013 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, Mr Plympton is Chairman of Entellect Limited (ASX: ESN) and is a director of Newsat Limited (ASX: NWT) and Energy Mad Limited (NZX: MAD). Mr Plympton 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 also served as a director of listed companies Beyond Sportswear International Limited (ASX:BSI) and Intermoco Limited (ASX:INT).
Mr Damian London	**Resigned as Executive Director and Chief Executive Officer on 2 August 2013, presently Non-executive Director** 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 in the last three years.
Ms Sophie Karzis	**Non-executive Director and Company Secretary** Ms Karzis is a practising lawyer with over 20 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. Ms Karzis has

not served as a director of any other listed companies in the last three years.

Mr Mark Goulopoulos **Non-executive Director**
Appointed 1 November 2012

Mr Goulopoulos is an Associate Director of Private Clients at Patersons Securities and has over 10 years' experience as an investment adviser. He has broad based knowledge which applies across many areas of financial markets and specialises in strategic investment advice for high net worth clients, small international hedge funds and family offices. Mr Goulopoulos has particular expertise with small capitalisation stocks and this has been a catalyst in him originating, arranging and distributing transactions in Equity Capital Markets. In addition to his experience in capital markets Mr Goulopoulos has also co-founded companies in the digital arena focussed on e-commerce and mobile applications. During the last three years, Mr Goulopoulos has not served as a director of any other listed companies in the last three years.

Mr Domenic Carosa **Non-executive Director**
Appointed 18 June 2013

Mr Carosa is co-founder and Chairman of Future Capital an early stage Internet investment fund and CEO of dominet, a boutique technology investment/consultancy group. Mr Carosa was previously the co-founder and Group CEO of ASX-listed destra Corporation Ltd which was the largest independent media and entertainment company in Australia with annualised revenues of over $100m in 2007-8. He stepped aside from destra in April 2008.

With over 20 years' experience in business and technology, Mr Carosa has built a reputation as a leader in the Internet space building Australia's second largest virtual web hosting/domain company which he sold for $20m in 2006. Mr Carosa is past Treasurer and Chairman of the Internet Industry Association (IIA) and holds a Masters of Entrepreneurship & Innovation (MEI) from Swinburne University. During the last three years, Mr Carosa has not served as a director of any other listed companies in the last three years.

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	12	12
Mr Damian London	12	12
Ms Sophie Karzis	12	11
Mr Mark Goulopoulos (appointed 1 November 2012)	9	9
Mr Domenic Carosa (appointed 18 June 2013)	-	-

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 on Page 19).

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)	Number of options (listed)
Mr Andrew Plympton	nil	600,000	nil
Mr Damian London *(1)*	34,518,667	1,000,000	nil
Ms Sophie Karzis	nil	nil	nil
Mr Mark Goulopoulos	8,100,000	nil	8,647,565
Mr Domenic Carosa *(2)*	40,478,565	nil	17,019,759

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 related entity.*
2. *These shares are held by Tiger Domains Pty Ltd atf Tiger Domains Unit Trust and MP3 Australia Pty Ltd atf MP3 Australia Unit Trust, in each of which the Director is both a 50% shareholder and unit holder.*

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	0.02

Dividends, paid, recommended and declared

No dividends were paid, declared or recommended since the start of the financial year ended 30 June 2013.

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 ended 30 June 2013. 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 during 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. However, the Group has now commenced implementation of a plan to establish an e-commerce division and has executed letters of intent for the purchase of the assets of EzyDirect.com.au and Ohki.com.au, which form the basis of the e-commerce division. In addition, the Company has merged its AdFeed and Footar businesses into a new Online Advertising division effective 1 July 2013.

Employees

The Group had no employees as at 30 June 2013 (2012: nil). The Group had consulting agreements with 3 contractors as at 30 June 2013 (2012: 4 contractors) who performed the primary activities of the Group at 30 June 2013.

OPERATING AND FINANCIAL REVIEW

Review of Operations

In FY2013 AdEffective committed to focusing on further development of the Footar division and continued operations of the AdFeed division. Footar division revenues in FY2013 were not in line with expectations and it was decided to merge the AdFeed and Footar divisions into a new Online Advertising division effective 1 July 2013.

The Company is pleased to announce a profit of $45,471 for the year ended 30 June 2013. Sales for the year were $2,778,518, slightly higher than FY2012 of $2,620,459. FY2013 saw the gross profit margin increase significantly to 43% (FY2012 gross profit margin: 36%) resulting from increases in earnings across Footar and Adfeed.

All revenues were generated from online advertising in FY2013. Revenues generated from the AdFeed division remained steady throughout the year whilst Footar display revenues declined quarter-on-quarter throughout FY2013 (Q1 FY2013 - $376,316, Q4 FY2013 - $160,279). The decrease in Footar display revenues resulted from a decrease in CPM (Cost per 1000 Page Impressions) payments being received. Overall revenues increased by $158,059 to $2,778,518 in 2013 (2012: $2,620,459) which can be attributed to better performance in the Footar division in Q1 and Q2. Whilst revenues from the Footar division improved in FY2013 in comparison to revenues generated from this division in FY2012, they failed to meet budgeted expectations. This performance ultimately led to the cessation of the Rubicon Agreement during May 2013.

In April 2013 the Company announced that it had commenced the creation of an e-commerce division. The new e-commerce division will sit alongside the Online Advertising division. The Company's creation of an e-commerce division is a natural extension of its existing businesses and is being developed with minimal additional capital expenditure and resources. The Company executed letters of intent for the purchase of the business assets of Ohki.com.au and Ezydirect.com.au, subject to certain completion milestones being achieved.

Results

Revenue for the year ended 30 June 2013 was $2,778,518 (2012: $2,620,459). Net profit from operations was $45,471 (2012: Net loss $1,649,942). The Group generated a profit of $45,471 (2012: net loss of $1,649,942) and net cash inflows from operations of $210,234 (2012: outflows of $424,440) for the year ended 30 June 2013. This year is the first year the Group is making net profits from operations.

Business model

Subsequent to the creation of an e-commerce division and the merger of the Group's AdFeed and Footar divisions into a single business unit, being the online advertising division, the Group's business is now conducted through those two key business divisions from 1 July 2013.

The online advertising division has two online advertising products, AdFeed and Footar. The newly created e-commerce division has two online retail stores, EzyDirect.com.au and OHKI.com.au, subject to completion of acquisition activities.

Online advertising division

The online advertising business leverages an extensive network of advertisers and publishers in conjunction with its proprietary technology platform to provide advertising placement and advertising syndication services across the world. The division generates revenue from AdFeed, a search and text advertising product where online advertising feeds are sourced, aggregated and syndicated and displayed on over 15 advertising networks in 15 countries. The division also generates revenue through Footar, an advertising display space located at the bottom of over 200 websites that provides a customisable ‘digital’ search, content and advertising delivery platform to increase revenue for our online publishing customers.

Strategies and plans – Online advertising division

- Expand into new markets to augment existing organic growth
- Increase our publisher network inline with the increasing supply of advertising inventory
- Assess opportunities to leverage our technology, network, publisher and advertising partnerships to extend our offering to mobile devices

E-commerce division

The e-commerce division will leverage a consolidated, store management, inventory, supplier, sales and service platform to efficiently provide consumers and small-to-medium businesses products purchased through our online retail stores, EzyDirect.com.au which services the office supplies market and OHKI.com.au which services the consumer electronics market.

Strategies and plans – E-commerce division

- Complete acquisition activities and re-launch the respective online operations
- Increase revenue across our online stores through customer acquisition and retention activities, sales optimisation and cross-selling to customers across online retail stores
- Enhance the e-commerce platform to support new online stores and create cost efficiencies across the division
- Enter new retail categories attractive to the division, organically or via acquisition
- Pursue further e-commerce acquisitions funded through cash reserves or the issue of ordinary shares

Future Prospects

The Directors are confident that the combination of careful management of overheads, continued sustained revenue from AdFeed, successful completion of the e-commerce asset purchases, 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 for the year ended 30 June 2013 on a going concern basis as they are satisfied that based on the factors outlined above, 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.

However without funding from positive operating cash flows and if the Company were unable 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.

Group Performance over the five-year period

	2013	**2012**	**2011**	**2010***	**2009**
Basic earnings/(loss) per share (cents)	0.02	(1.35)	(1.12)	0.01	(0.5)

** Change of business structure and ownership.*

Financial position

The Group had net assets of $638,963 as at 30 June 2013 (2012: $593,492).

The Group had receivables of $504,452 as at 30 June 2013 (2012: $946,821).

The Group had payables of $468,107 as at 30 June 2013 (2012: $707,328).

Cash flows

The Group generated net operating cash inflows of $210,234 during the year ended 30 June 2013 (2012: net cash outflows $424,440). Net investing cash outflows were $10 in the year ended 30 June 2013 (2012: $nil).

Net financing cash inflows were $nil in the year ended 30 June 2013 (2012: $643,416).

There was a cash balance at 30 June 2013 of $564,223 (2012: $353,999).

Likely developments and expected results

The Company is pleased with the 2013 financial result and the Directors are cautiously optimistic that, despite the challenges in the global advertising environment, the Group is positioned to achieve its objective of continued profitability in the 2014 financial year.

Key business risks

A number of specific risk factors that may impact the future performance of the Group are described below. Shareholders should note that this list is not exhaustive.

(a) Risks related to the Group's online advertising business division

- **Relationships with clients** – The Group has a number of key clients to which it supplies and for whom it sells advertising. The Company is reliant on these clients and advertisers. Any changes in the Company's relationship with one or more clients or advertisers would be likely to have a material adverse effect on the Company's business.

- **Ability to retain key clients** – The online advertising business division of the Group is dependent on securing of contracts to license and supply advertising products and services to consumers. The Group has no control over the timing of these opportunities or in respect of the awarding of such contracts. The Company's relationship with its key customers is principally governed by formal and informal contractual arrangements. Generally, there is no guaranteed minimum level of revenue for AdEffective under these arrangements. Because there are relatively few customers and contracts can be relatively large, revenue is not expected to be spread evenly throughout the year. If the Company fails to maintain or secure future contracts, revenue could be significantly affected. Whilst the Company adopts a number of measures to address risks in this respect (such as through a focus on developing its relationships with key customers), such measures cannot guarantee the Company's ability to maintain or secure its contracts. For instance, as a result of revenues from the Footar division failing to meet budgeted expectations during the year (despite an improvement from FY2012 revenues), the Company's contract with Rubicon was terminated in May 2013.

(b) Risks related to the Group's e-commerce business division

- **New division –** The Group's e-commerce division is a new business offering. Whilst the new division is an extension of the Group's existing business and is being developed with minimal capital expenditure and resources, there is no guarantee that this division will generate profits in the near to medium term, particularly at this early stage of its development. In addition, the development of the Group's e-commerce division is dependent on growth through strategic acquisitions. Whilst the Directors continue to source reliable acquisition opportunities that will provide appropriate additions to the Group's e-commerce division, the Company cannot guarantee the success or indeed completion of any proposed acquisitions of new businesses. Accordingly, there is a risk that the Group will not, in the short to medium term, realise any value from its capital investments in these businesses.

- **E-commerce risks –** There are a number of inherent risks associated with operating in the e-commerce sector, including but not limited to security breaches (particularly in relation to credit card security), fraud exposure, customer disputes and chargebacks. For instance, security risks arising from intrusions from viruses and hackers could disrupt the Group's business operations and may lead to loss in customer confidence and sales revenue.

(c) General risks

- **Reliance on technology** – The successful operation of the Group's business is dependent on various technologies including the internet and co-located dedicated servers. Any significant disruption to these systems could have a materially detrimental effect on the Group's business. Further, there is no guarantee that the technology utilised by the Group will not, in the future, be superseded by other technologies.

- **Intellectual property** – One of the Group's significant assets is its intellectual property rights in products and services, which it has developed. The Company relies on a combination of copyright and trademark laws, confidentiality procedures and contractual provisions to protect these assets. Unauthorised use of the Company's intellectual property could have a materially adverse effect on the Company and there can be no assurance that the Company's legal remedies would adequately compensate it for the damage to its business caused by such use.

- **Competition –** The Group is not unique in developing and marketing many of its products and services. There is a risk that its products and services may not, in the future, be able to compete with competitors' products and services on cost or technical grounds.

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 April 2013, the Company announced the creation of the e-commerce division and its intention in reviewing acquisition opportunities of a number of e-commerce websites.

- In May 2013, the Company terminated its key Footer Partner contract with Rubicon.

After balance date events

Since 30 June 2013, the Company announced that as part of its ongoing strategy to augment its current business with the establishment of an e-commerce division, Mr Damian London resigned as Chief Executive Officer effective 2 August 2013, and Mr Simon Crean will assume this role, with effect from 9 September 2013.

Environmental regulation

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

Share options (listed & unlisted)

The Company granted 6,000,000 Performance Rights to Directors as an incentive to provide dedicated and ongoing commitment and effort to the Company. The performance rights were granted under the Notice of 2012 Annual General Meeting of the Company on 28 November 2012. The exercise price of the rights was zero cents.

The rights were to vest if the relevant Director was continuously employed until 30 June 2013 and the Company achieved its budgeted revenue of $4.4 million and profit after tax of $96,000 for the year ended 30 June 2013. The Company did not meet its Board approved budgeted revenue and profit targets for FY2013 and accordingly the rights have now lapsed.

The Company expensed the grant-date fair value of the rights over the vesting period from 1 July 2012 to 30 June 2013. In view of the performance rights only vesting upon the achievement of the above-said performance conditions, management took into account the probability of achievement the performance conditions in determining the expense.

The fair value of the performance rights granted at grant date was $0.011 per the ASX daily closing price on the date of the AGM.

As at 30 June 2013, the Company reversed the performance rights expense of $12,857 recognised in half year ended 31 December 2012 due to the fact that the vesting conditions were not met as at 30 June 2013.

No listed share options or unlisted share options were issued and exercised during the financial year ended 30 June 2013. 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 25 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 and officers

The Company agreed to indemnify all directors and executive officers for losses which they may become legally obligated to pay on account of any claim first made against them during the policy period for a wrongful act committed before or during the policy.

Total amount of insurance contract premium paid was $4,800.

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 Chief Executive Officer 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 equity hedging 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. For the financial year ended 30 June 2013, the Directors have put in place remuneration packages with key executives that are dependent on performance conditions being met. Further details of the remuneration of the Directors and Key Management Personnel is provided belowand in note 25 to the consolidated financial statements.

Share options
The Company granted 6,000,000 Performance Rights to Directors as an incentive to provide dedicated and ongoing commitment and effort to the Company. The performance rights were granted under the Notice of 2012 Annual General Meeting of the Company on 28 November 2012. The exercise price of the rights was zero cents.

The Performance Rights were to vest if the relevant Director was continuously employed until 30 June 2013 and the Company achieved its budgeted revenue of $4.4mil and profit after tax of $96k for the year ended 30 June 2013. The Company did not meet its Board approved budget revenue and profit targets for FY2013 and accordingly the Performance Rights have now lapsed.
No options or performance rights were issued to executives or staff during the year ended 30 June 2013 (2012: nil).

Employment contracts
The CEO has a formal service agreement with the Group.

During FY2013, the CEO was Damian London. Mr London's services to the Group were provided under a service contract with DL Consulting Group Pty Ltd ACN 127 541 011 under which DL Consulting Group Pty Ltd was 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 could 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 fees payable under the contract were $12,500 per month plus GST (but exclusive of any superannuation if applicable). 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 a specific annual agreement between the parties so as to reflect relevant circumstances at the time. No bonus was payable to the CEO for the 2013 financial year.

Contractors are employed on contracts which are generally terminable on either party giving one month's written notice.

On 22 July 2013, the Company entered into a services agreement with Mr Simon Crean in respect to his appointment as Chief Executive Officer (**CEO**). A summary of the key terms of Mr Crean's employment under the Agreement is as follows:

- Mr Crean's term of employment as CEO will commence on 9 September 2013 and will continue indefinitely until terminated in accordance with the Agreement.

- Mr Crean's fixed remuneration is $160,000 per annum, plus compulsory superannuation contributions at the required statutory rate.

- The Company may, if the Board determines in its absolute discretion and subject to any relevant performance or other conditions, restrictions or requirements of the Board or of the listing rules of ASX, pay a short term incentive (STI) to the Executive, and/or grant shares or options to or for the benefit of Mr Crean as a long term incentive (LTI).

- The Board has determined that subject to approval by its shareholders and any other approvals that may be required, for the purposes of an LTI, Mr Crean will be issued with:
    - 2 million options with an exercise price of 1.5 cents each to acquire 2 million ordinary shares in the Company (A Options); the A Options will vest as follows:
    - 666,666 will vest and be exercisable at any time during a period of three years from the date that is 12 months after the date of issue of the A Options; and
    - 666,667 will vest and be exercisable at any time during a period of three years from the date that is 24 months after the date of issue of the A Options; and
    - 666,667 will vest and be exercisable at any time during a period of three years from the date that is 36 months after the date of issue of the A Options.
    - 2 million options with an exercise price of 2.5 cents each to acquire 2 million ordinary shares in the Company (B Options); the B Options will vest as follows:
    - 666,666 will vest and be exercisable at any time during a period of three years from the date that is 12 months after the date of issue of the B Options; and
    - 666,667 will vest and be exercisable at any time during a period of three years from the date that is 24 months after the date of issue of the B Options; and
    - 666,667 will vest and be exercisable at any time during a period of three years from the date that is 36 months after the date of issue of the B Options.

- Mr Crean's employment may be terminated at any time by the Company giving Mr Crean three (3) months' notice of termination (or payment in lieu of such notice). The Company may terminate Mr Crean's employment immediately in certain circumstances including serious misconduct and material breach of the employment agreement, in which event Mr Crean will not be entitled to any compensation, except for any outstanding payments for accrued leave entitlements.

- Mr Crean may terminate his employment at any time by giving the Company three (3) months' notice of termination.

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 2013 and 30 June 2012 were as follows:

Name	Short Term Benefits Salary & Fees $	Bonus $	Post-Employment Superannuation Contributions $	Number of Shares/ Options Granted No.	Value of Shares/ Options Granted $	Percentage of Options value/ bonus that represent remuneration %	Total $
2013							
Mr Damian London Exec Director, CEO	172,989	-	13,500	#	#	-	186,489
Total	172,989	-	13,500	-	-	-	186,489
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
Total	219,638	12,860	11,745	-	-	-	244,243

 # The number/value of the $6mil performance rights issued on 28 November 2012 did not vest due to vesting conditions not met and hence no expense was recognised during the year.

Remuneration of Non-executive directors for the Group
Non-executive remuneration for the year ended 30 June 2013 and 30 June 2012 was as follows:

Name	Short Term Benefits Salary & Fees $	Post-Employment Superannuation Contributions $	Equity Number of Options Granted No.	Equity Value of Options Granted $	Total $
2013					
Mr Andrew Plympton Non-Executive Chairman	29,500	-	#	#	29,500
Ms Sophie Karzis Co Secretary, Non-exec Director	28,300	-	#	#	28,300
Mr Mark Goulopoulos, Non-exec Director	19,200	1,728	-	-	20,928
Mr Domenic Carosa, Non-exec Director	1,040	-	-	-	1,040
Total	78,040	1,728	-	-	79,768

 # The number/value of the $6mil performance rights issued on 28 November 2012 did not vest due to vesting conditions not met and hence no expense was recognised during the year.

Remuneration of Non-executive directors of the Group (continued)

Short Term Benefits Salary &	Post-Employment Superannuation	Equity Number of	Equity Value of Options

Name	Fees $	Contributions $	Options Granted No.	Granted $	Total $
2012					
Mr Andrew Plympton Non-Executive Chairman	24,000	-	-	-	24,000
Ms Sophie Karzis Co Secretary, Non-exec Director	10,175	-	-	-	10,175
Total	34,175	-	-	-	34,175

Shares issued during the year

No shares were issued to Directors or other key management personnel during the year ended 30 June 2013 (2012: 9,518,667). Refer to note 17.

Options granted

The Company granted 6,000,000 Performance Rights to Directors on 28 November 2012. The exercise price of the rights was zero cents. The Performance Rights were to vest if the relevant Director was continuously employed until 30 June 2013 and the Company achieved its budgeted revenue and profit after tax for the year ending 30 June 2013. The Company did not meet its internal budgeted revenue and profit targets for FY2013 and accordingly the Performance Rights have now lapsed.

No options or performance rights were issued to key management personnel during the year ended 30 June 2013 (2012: nil).

Tax consolidation

AdEffective and its 100% owned subsidiaries are part of an income tax consolidated group.

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 2013.

Signed in accordance with a resolution of the Directors

Andrew Plympton
Non-Executive Chairman

Melbourne, 27 September 2013

Building a better working world

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Auditor's Independence Declaration to the Directors of AdEffective Limited

In relation to our audit of the financial report of AdEffective Limited for the year ended 30 June 2013, 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

Ernst & Young

Ashley Butler
Partner
27 September 2013

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 has substantially complied 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		
Companies should establish and disclose the respective roles and responsibilities of board and 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.	Non-Complying	Two of the five 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 has not established a formal nomination committee, having regard to the size of the Company. The Board acknowledges that when the size and nature of the Company warrants the necessity of a formal nomination committee, such a committee will operate under a nomination committee charter which will be approved by the Board. Presently, the Board, as a whole, serves as a nomination committee to the Company. Where necessary, the Board seeks advice of external advisers in connection with the suitability of applicants for Board membership.
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.

ASX Principle	Status	Reference / Comment
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.** • **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.**	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 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 Group employed no employees as at 30 June 2013 (2012: nil), the Board has resolved to depart from the new recommendations by not implementing a gender diversity policy. Nonetheless, at such time that the Company seeks to establish and expand its workforce, the Company will be committed to the principles of employing people with a broad range of experiences, skills and views.
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 the recommendation is inappropriate to the Company's particular circumstances as the Group employed no employees as at 30 June 2013 (2012: nil). Accordingly, the Board has resolved to depart from the new recommendations by not implementing a gender diversity policy. Whilst the Company has not set formal measurable objectives for achieving gender diversity, at such time that the Company seeks to establish and expand its workforce, the Company will commit to recruiting employees from a diverse pool of qualified candidates.
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 was appointed after the year ended 30 June 2013). In addition, the Company has two female contractors in senior positions being the Company Secretary and the Chief Financial Officer .There is presently one female on the Board.
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**	Non-Complying	See above. The Board as a whole carries out the functions of an audit committee.

ASX Principle	Status	Reference / Comment
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.		
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.

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.

ASX Principle	Status	Reference / Comment
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.
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 regular basis; the Board is satisfied that the processes in place to identify the Company's material business risks are appropriate and that these risks are being effectively managed. The Company's risk management processes continue to be monitored and reported against on an ongoing basis. A description of the Group's risk management policy and internal compliance and control systems is available on the Group's website.
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.		
8.1 The board should establish a remuneration committee.	Non-Complying	The Board has not established a formal remuneration committee, having regard to the size of the Company. The Board acknowledges that when the size and nature of the Company warrants the necessity of a formal remuneration committee, such a committee will operate under a

ASX Principle	Status	Reference / Comment
		remuneration committee charter which will be approved by the Board. Presently, the Board, as a whole, serves as a remuneration committee to the Company. Where necessary, the Board seeks advice of external advisers in connection with the remuneration of executives and directors.
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.
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 2013

	Notes	**Consolidated 2013 $**	Consolidated 2012 $
Revenue			
Sales revenue	6	**2,778,518**	2,620,459
Other income	6	**11,680**	11,376
		2,790,198	2,631,835
Direct costs	7	**(1,603,325)**	(1,696,356)
Gross profit		**1,186,873**	935,479
Contractor and director expenses	7	**(627,100)**	(590,224)
Administrative expenses	7	**(509,008)**	(531,356)
Depreciation and amortisation expenses	7	**-**	(180,915)
Impairment of goodwill, intangibles and plant & equipment expenses	7	**-**	(983,088)
Write off of Furneaux facility fee		**-**	(175,000)
Finance costs	7	**(5,294)**	(124,838)
Profit/(loss) before income tax		**45,471**	(1,649,942)
Income tax expense	8	**-**	-
Profit/(loss) for the year attributable to members		**45,471**	(1,649,942)
Other Comprehensive Income		**-**	-
Total Comprehensive profit/(loss) for the year		**45,471**	(1,649,942)
Earnings/(loss) per share (cents per share)			
- Basic and diluted earnings/(loss) per share	9	**0.02**	(1.35)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

	Notes	**Consolidated 2013 $**	Consolidated 2012 $
Current Assets			
Cash and cash equivalents	10	**564,223**	353,999
Trade and other receivables	11	**504,452**	946,821
Prepayments and deposits	12	**38,395**	-
Total Current Assets		**1,107,070**	1,300,820
Total Non-current Assets		**-**	-
Total Assets		**1,107,070**	1,300,820
Current Liabilities			
Trade and other payables	15	**468,107**	707,328
Total Current Liabilities		**468,107**	707,328
Total Liabilities		**468,107**	707,328
Net Assets		**638,963**	593,492
Equity			
Contributed equity	17	**26,404,522**	26,404,522
Reserves	18	**24,000**	24,000
Accumulated losses	19	**(25,789,559)**	(25,835,030)
Total Equity		**638,963**	593,492

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2013

	Notes	Share Capital $	Reserves $	Accumulated Losses $	Total Equity $
At 1 July 2012		**26,404,522**	**24,000**	**(25,835,030)**	**593,492**
Profit for the year	19	**-**	**-**	**45,471**	**45,471**
Other comprehensive income		**-**	**-**	**-**	**-**
Total comprehensive income		**-**	**-**	**45,471**	**45,471**
Transactions with owners in their capacity as owners		**-**	**-**	**-**	**-**
At 30 June 2013		**26,404,522**	**24,000**	**(25,789,559)**	**638,963**
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

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2013

	Notes	**Consolidated 2013 $**	Consolidated 2012 $
Cash flows from operating activities			
Receipts from customers		**3,531,030**	2,410,779
Payments to suppliers and employees		**(3,327,182)**	(2,818,619)
Interest received		**11,680**	11,376
Finance costs		**(5,294)**	(27,976)
Net cash flows provided by/(used in) operating activities	10	**210,234**	(424,440)
Cash flows from investing activities			
Investment in subsidiary		**(10)**	
Net cash flows provided by/(used in) investing activities		**(10)**	-
Cash flows from financing activities			
Proceeds from rights issued		**-**	1,487,843
Cash from exercise of share options		**-**	63
Proceeds from convertible notes		**-**	400,000
Repayment of convertible notes		**-**	(991,520)
Capital raising costs		**-**	(252,970)
Net cash flows provided by financing activities		**-**	643,416
Net increase in cash and cash equivalents		**210,224**	218,976
Cash and cash equivalents at the beginning of financial year		**353,999**	130,023
Cash and cash equivalents at the end of financial year	10	**564,223**	353,999

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

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 2013 was authorised for issue in accordance with a resolution of the directors on 30 September 2013.

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*. For the purposes of preparing the financial statements, AdEffective Limited is a for profit entity.

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. Since 1 July 2012 the Group has adopted the following new and amended Australian Accounting Standards and AASB. The adoption of the standards and interpretations did not have any effect on the financial position or performance of the Group.

Reference	Title	Application date of standard*	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 othercomprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	1 July 2012

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

Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet effective have not been applied to the financial report.

The following amendments by the AASB to Australian Accounting Standards are not expected to have a material impact on the Group's financial position and performance, however increased disclosures will be required in the Group's financial statements.

The Group will continue to assess these new standards and amendments in the 30 June 2014 year to confirm the impact on the Group.

AASB Reference	Title	Application date for Group*
AASB 9	Financial Instruments	1 July 2013
AASB 10	Consolidated Financial Statements	1 July 2013
AASB 11	Joint Arrangements	1 July 2013
AASB 13	Fair Value Measurement	1 July 2013
AASB 119	Employee Benefits	1 July 2013
AASB 1053	Application of Tiers of Australian Accounting Standards	1 July 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124)	1 July 2013
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	1 July 2014

(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

The Group generated a profit of $45,471 (2012: net loss of $1,649,942) and net cash inflows from operations of $210,234 (2012: outflows of $424,440) for the year ended 30 June 2013.

The Directors are confident that the combination of careful management of overheads, continued sustained revenue from AdFeed, successful completion of the e-commerce asset purchases, 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 above, 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.

However without funding from positive operating cash flows and if the Company were unable 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.

(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.

(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.

(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, 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 2013 $	Consolidated 2012 $
Financial assets		
Cash and cash equivalents	**564,223**	353,999
Net exposure	**564,223**	353,999

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.

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 2013, 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)**
	2013	2012	**2013**	2012
	$	$	**$**	$
Consolidated				
+1% (100 basis points)	**5,642**	3,540	**-**	-
-0.5% (50 basis points)	**(2,821)**	(1,770)	**-**	-

The movements in post-tax profit/(loss) and other comprehensive income are due to higher cash balances on hand as at 30 June 2013. The sensitivity is higher in 2013 than in 2012 as a result of higher cash holdings at 30 June 2103,

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 $417,767 making up 95% of the trade receivables balance at 30 June 2013.

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 49.6% of the Group's sales and 55.3% of costs are denominated in US$ whilst 44.7% 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 2013 $	Consolidated 2012 $
Financial assets		
Trade and other receivables	**274,381**	377,625
Financial liabilities		
Trade and other payables	**(243,022)**	(601,742)
Net exposure	**31,359**	(224,117)

At 30 June 2013, the Group has not hedged its US$ sales or purchases.

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 2013, 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)**
	2013	2012	**2013**	2012
	$	$	**$**	$
Consolidated				
AUD to US Dollar +15% (2012: +15%)	**(6,650)**	29,233	**-**	-
AUD to US Dollar -15% (2012: -15%)	**8,997**	(39,550)	**-**	-

The movements in post-tax profit/(loss) and other comprehensive income are due to lower net exposure balance as at 30 June 2013. The sensitivity is lower in 2013 than in 2012 because net exposure balance for 2013 is lower.

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 2013, 100% of the Group's financial liabilities will mature in less than one year (2012: 100%).

The table below reflects all contractually fixed payables 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 2013.

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

Year ended 30 June 2013	**< 1 month $000**	**1-3 months $000**	**3-6 months $000**	**Total $000**
Financial assets				
Cash and cash equivalents	**564,223**	**-**	**-**	**564,223**
Trade and other receivables	**383,521**	**31,044**	**89,887**	**504,452**
	947,744	**31,044**	**89,887**	**1,068,675**
Financial liabilities				
Trade and other payables	**172,036**	**296,071**	**-**	**468,107**
	172,036	**296,071**	**-**	**468,107**
Net maturity	**775,708**	**(265,027)**	**89,887**	**600,568**

Liquidity risk (cont'd)

Year ended 30 June 2012	< 1 month $000	1-3 months $000	3-6 months $000	Total $000
Financial assets				
Cash and cash equivalents	353,999	-	-	353,999
Trade and other receivables	429,313	370,462	147,045	946,820
	783,312	370,462	147,046	1,300,819
Financial liabilities				
Trade and other payables	305,573	401,755	-	707,328
	305,573	401,755	-	707,328
Net maturity	477,739	(31,293)	147,045	593,491

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

Management's expectation reflects a balanced view of cash inflows and outflows. The Group's assets mainly consist of cash and trade receivables with the liabilities consisting of trade payables from the ongoing operations of the service business. To monitor existing financial assets and liabilities as well as to enable an effective controlling of funding for the business, the Group has established risk reporting covering its business 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

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(a) Tax losses

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The Group has $1,528,364 (2012: $1,479,938) of tax losses carried forward. The tax losses pre 2011 may not be used to offset future taxable income because they may not meet the continuity of ownership or same business tests. However, tax losses from FY2011 to FY2013 of $1,528,364 may be used to offset future taxable income as it meets the continuity of ownership and same business test.

The Group has made a maiden profit this financial year but due to the uncertainty of future taxable profits, the Group has determined that it cannot recognise deferred tax assets on the tax losses of 2012.

(b) Share-based payment transactions (performance rights)

The Company expensed the grant-date fair value of the performance rights over the vesting period from 1 July 2012 to 30 June 2013. The performance rights only vested upon the achievement of the performance conditions and management took into account the probability of achievement of the performance conditions in determining the expense. The rights were to vest only if the relevant Director was continuously employed until 30 June 2013 and the Company achieved its Board approved budget revenue of $4.4mil and profit after tax of $96k for the year ended 30 June 2013.

The fair value of the performance rights granted at grant date was $0.011 per the ASX daily closing price on the date of the AGM.

As at 30 June 2013, the Company reversed the performance rights expense of $12,857 recognised in half year ended 31 December 2012 due to the fact that the vesting conditions were not met and the rights have lapsed as at 30 June 2013. Refer note 18.

5. PARENT ENTITY INFORMATION

Information relating to AdEffective Ltd - Parent:	**2013 $**	2012 $
Current assets	**596,766**	353,901
Total assets	**596,766**	353,901
Current liabilities	**(1,884)**	(72,188)
Total liabilities	**(1,884)**	(72,188)
Issued capital	**26,404,522**	26,404,522
Accumulated losses	**(25,833,640)**	(26,146,809)
Share based payments reserve	**24,000**	24,000
Total shareholders' equity	**594,882**	281,713
Loss of the parent entity	**313,170**	(2,414,829)
Total comprehensive income of the parent entity	**313,170**	(2,414,829)

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 2013 $	Consolidated 2012 $
Revenue from operating activities		
Sale of services	**2,778,518**	2,620,459
Total sales revenue	**2,778,518**	2,620,459
Other income		
Bank interest receivable	**11,680**	4,876
Sale of domain names	**-**	6,500
Total other income	**11,680**	11,376

7. EXPENSES

	Consolidated 2013 $	Consolidated 2012 $
Direct Costs	**1,603,325**	1,696,356
Total direct costs	**1,603,325**	1,696,356
Employee benefits expense		
Wages, salaries and contractors	**611,872**	565,619
Defined contribution plan expense	**15,228**	11,745
Other employee benefits expense	**-**	12,860
Total employee benefits expense	**627,100**	590,224
Administrative expenses		
Occupancy costs	**26,301**	12,310
Advertising and marketing expenses	**(4,031)**	8,661
Communications costs	**72,425**	38,148
Professional fees	**298,294**	386,189
Office administration costs	**-**	1,927
Other expenses	**16,934**	20,544
Bad debt write off	**10,860**	-
Net foreign exchange differences	**88,225**	63,577
Total administrative expenses	**509,008**	531,356
Impairment losses		
Impairment loss on goodwill, intangibles and plant & equipment	**-**	983,088
Total impairment losses	**-**	983,088
Depreciation expense		
Amortisation	**-**	149,302
Plant and equipment	**-**	31,613
Total depreciation expense	**-**	180,915
Finance costs		
Interest expense:		
Other loans	**-**	96,863
Bank interest	**5,294**	27,975
Total finance costs	**5,294**	124,838

8. INCOME TAXES

	Consolidated 2013 $	Consolidated 2012 $
Current and deferred tax expense for the year ended 30 June 2013 were $nil (2012: $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	**45,471**	(1,649,942)
At the Group's statutory income tax rate of 30% (2012: 30%)	**13,641**	(494,983)
Adjustments:		
Impairment of goodwill & intangibles	**-**	305,349
Utilisation of previously unrecognised tax losses	**10,124**	217,186
Other amounts	**(23,765)**	(27,552)
Income tax benefit reported in the consolidated income statement	**-**	-

Income tax losses

Unused tax losses for which no deferred tax asset has been recognised	**454,105**	443,981

Tax Loss Deferred Tax Asset recognition

Deferred tax assets will only be recognised if:

a) future assessable income is derived of a nature and 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 2013 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 2013 (2012: nil).

Tax consolidation

AdEffective and its 100% owned subsidiaries are part of an income tax consolidated group.

9. EARNINGS PER SHARE

Basic earnings/(loss) per share is calculated by dividing net profit/(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/(loss) per share is calculated by dividing the net profit/(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 2013	Consolidated 2012
Basic and diluted earnings/(loss) per share	**0.02 cents**	(1.35) cents
Net profit/(loss) for the year	**45,471**	($1,649,942)
Weighted average number of ordinary shares used in calculating basic earnings per share	**207,901,921**	121,825,174
Weighted average number of ordinary shares used in calculating diluted earnings per share	**207,901,921**	121,825,174

In 2012 potential ordinary shares were considered anti-dilutive as they reduced the loss per share.

10. CASH AND CASH EQUIVALENTS

	Consolidated 2013 $	Consolidated 2012 $
Cash at bank and on hand	**564,223**	353,999
	564,223	353,999

Cash at bank earns interest at floating rates based on daily bank deposit rates.

	Consolidated 2013 $	Consolidated 2012 $
Reconciliation of net profit/(loss) after tax to net cash flows from operations		
Net profit/(loss)	**45,471**	(1,649,942)
Adjustments for:		
Depreciation of non-current assets	**-**	31,613
Amortisation	**-**	149,302
Impairment for goodwill, intangibles and plant & equipment expense	**-**	983,088
Write off of Furneaux facility fee	**-**	175,000
Bad debts write off	**10,860**	-
Finance cost on expensed of share options valued	**-**	36,739
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables and prepayments	**393,124**	(433,476)
Increase/(decrease) in trade and other payables	**(239,221)**	283,236
Net cash used in operating activities	**210,234**	(424,440)

10. CASH AND CASH EQUIVALENTS (cont'd)

	Consolidated 2013 $	Consolidated 2012 $
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 2013 $	Consolidated 2012 $
Trade receivables	**475,477**	890,050
Provision for doubtful debts	**-**	-
	475,477	890,050
Other receivables	**28,975**	56,771
	504,452	946,821

(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 (2012: 60 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 (2012: 60 days). A provision for doubtful debt is recognised when there is objective evidence that an individual trade receivable is impaired. A bad debt expense of $10,860 was recognised by the Group during the year (2012: $nil).

Movements in the provision for impairment loss were as follows:

	Consolidated 2013 $	Consolidated 2012 $
At 1 July	-	-
Charge for the year	10,860	-
Amounts written off	(10,860)	-
At 30 June	-	-

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 (PDNI)*
2013	**Consolidated**	**475,477**	**385,591**	**89,886**	**-**
2012	Consolidated	890,050	743,005	147,045	-

*Past due not impaired ('PDNI')

Receivables past due but not considered impaired are: $89,886 (2012: $147,045). 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 2013 $	Consolidated 2012 $
Current assets		
Prepaid insurance	**1,200**	-
Rental deposit	**7,500**	-
Business assets purchased *(a)*	**29,695**	-
	38,395	-

(a) *These relate to deposits for proposed acquisitions in the e-commerce division and the acquisitions are yet to be completed.*

13. PLANT AND EQUIPMENT

	Consolidated 2013 $	Consolidated 2012 $
(a) Carrying values		
Plant and equipment:		
At cost	**-**	158,051
Accumulated depreciation	**-**	(68,489)
Impairment	**-**	(89,562)
	-	-

In 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.

(b) Reconciliations

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

	2013 $	2012 $
Balance at the beginning of the year	**-**	121,172
Depreciation expense	**-**	(31,610)
Impairment expense	**-**	(89,562)
Balance at the end of the year	**-**	-

14. GOODWILL AND INTANGIBLE ASSETS

	Consolidated 2013 $	Consolidated 2012 $
(a) Carrying values		
Goodwill	**-**	789,789
Intangible assets	**-**	373,160
Accumulated amortisation	**-**	(269,423)
Impairment of goodwill and intangible assets	**-**	(893,526)
Net carrying amount	**-**	-

(b) Reconciliations

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

	2013 $	2012 $
Balance at the beginning of the year		
- Goodwill through acquisition	**-**	789,789
- Intangible assets identified through acquisition	**-**	228,042
Amortisation expense	**-**	(124,305)
Impairment of goodwill and intangible assets expense	**-**	(893,526)
Balance at the end of the year	**-**	-

In 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.

15. TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated 2013 $	Consolidated 2012 $
Trade payables	**226,175**	556,353
Other payables	**216,643**	139,230
Related parties	**25,289**	11,745
	468,107	707,328

(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 2013 $	Consolidated 2012 $
Convertible Notes	**-**	-
	-	-

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
Interest payable	**-**	60,123
Repayment of Convertible Notes including interest	**-**	(991,520)
Balance at the end of the year	**-**	-

The total convertible notes including interest were repaid on 14 April 2012.

17. CONTRIBUTED EQUITY

(a) Issued and paid up capital

	Consolidated 2013 $	Consolidated 2012 $
Ordinary shares		
Ordinary shares fully paid	**26,286,802**	26,620,480
Listed options	**117,720**	117,720
Share issue costs	**-**	(333,678)
Contributed equity	**26,404,522**	26,404,522

Movements in ordinary shares on issue	**Number of Shares**	**$**	Number of Shares	$
Opening balance	**207,901,921**	**26,286,802**	4,959,473,337	24,989,794
Shares issued during the year:				
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**	207,901,921	26,286,802

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	**2013 Number of Options**	**2013 $**	2012 Number of Options	2012 $
Opening balance	**147,248,490**	**117,720**	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**	147,248,490	117,720

17. CONTRIBUTED EQUITY (cont'd)

Listed options were issued as part of a Rights Issue Offer in April 2012 to new and existing shareholders. All options were 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 the rights issue and it was valued in accordance to AASB2. Hence a fair value on these options was performed in June 2012 using option-pricing model.

(c) Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise the shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

The Group has no borrowings as at 30 June 2013 (2012: $nil).

18. RESERVES

	Consolidated 2013 $	Consolidated 2012 $
Options granted reserve		
Balance at beginning of financial year	**24,000**	112,842
Net movement for the year	**-**	(88,842)
Balance at end of financial year	**24,000**	24,000

Nature and Purpose of Options Granted Reserve

This reserve is used to record the value of share based payments arising 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 2013 are set out below:-

	2013 Number of Options	**2013 Weighted Average Exercise Price**	2012 Number of Options	2012 Weighted Average Exercise Price
Balance at beginning of year	**2,600,000**	**$0.10**	130,000,000	$0.002
Granted	**6,000,000***	**$0.011**	-	-
Expired	**-**	**-**	-	-
Lapsed	**(6,000,000)***	**($0.011)**	-	-
Other changes during the year**	**-**	**-**	(127,400,000)	$0.002
Balance at end of year	**2,600,000**	**$0.10**	2,600,000	$0.10
Exercisable at end of year	**2,600,000**	**$0.10**	2,600,000	$0.10

* *Performance rights granted to Directors on 28 November 2012 but lapsed as at 30 June 2013 due to vesting conditions not met.*

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

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, other than the performance rights granted during the year but lapsed as at year end, or until the date of this report.

19. ACCUMULATED LOSSES

	Consolidated 2013 $	Consolidated 2012 $
Balance at beginning of financial year	**(25,835,030)**	(24,714,262)
Net profit/(loss) for the year	**45,471**	(1,649,942)
Transferred from reserves	**-**	529,174
Balance at end of financial year	**(25,789,559)**	(25,835,030)

20. COMMITMENTS

The Group has entered into commercial property lease with effect from 7 May 2013, with rent payable monthly in advance. (2012: nil).

	2013 $	2012 $
Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Not later than 12 months	**45,000**	-
Between 12 months and 2 years	**38,219**	-
	83,219	-

The property lease is for a 2 year term with an option to extend the lease for another 2 year term at the latest exercising option date of 6 February 2015.

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 2013 (2012: nil).

23. AFTER BALANCE DATE EVENTS

Since 30 June 2013, the Company announced that as part of its ongoing strategy to augment its current business with the establishment of an e-commerce division, Mr Damian London resigned as Chief Executive Officer effective 2 August 2013, and Mr Simon Crean will assume this role, with effect from 9 September 2013.

24. AUDITOR'S REMUNERATION

	Consolidated 2013 $	Consolidated 2012 $
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	**80,000**	78,780
	80,000	**78,780**

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**	
		2013 %	2012 %	**2013 $**	2012 $
AdEffective Business Networks Pty Ltd	Australia	**100**	**100**	**-**	**-**
AER Group Pty Ltd*	Australia	**100**	**-**	**10**	**-**

**This entity was established on 27 May 2013 as a wholly-owned subsidiary of AdEffective Limited. It was set up to hold the e-commerce division operations in the new financial year 2014. As at 30 June 2013, there was only $10 fully paid ordinary shares being set up in the entity.*

(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.

(d) Other related party transactions

During the financial year ended 30 June 2013, no other related party transactions took place (2012: 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	Non-Executive Director
Mr Mark Goulopoulos	Non-Executive Director (appointed on 1 November 2012)
Mr Domenic Carosa	Non-Executive Director (appointed on 18 June 2013)

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

6,000,000 share options were granted as part of remuneration for the year ended 30 June 2013, however, due to failure to meet board approved revenue and profit targets the options lapsed(2012: nil)

(g) Shares issued on exercise of remuneration options

No shares were issued in the financial year ended 30 June 2013 as a result of the exercise of remuneration options (2012: nil).

25. RELATED PARTY DISCLOSURE (cont'd)

(h) Unlisted Option holdings of Directors

	Balance at 1 July 2012 No.	Issued during year No.	Lapsed during year No.	Exercised during year No.	Balance at 30 June 2013 No.
Director					
Mr Andrew Plympton	600,000	1,000,000	(1,000,000)	-	600,000
Mr Damian London	1,000,000	4,000,000	(4,000,000)	-	1,000,000
Ms Sophie Karzis	-	1,000,000	(1,000,000)	-	-
Mr Mark Goulopoulos	-	-	-	-	-
Mr Domenic Carosa	-	-	-	-	-
Total	1,600,000	6,000,000	(6,000,000)	-	1,600,000

(i) Listed Option holdings of Directors

	Balance at 1 July 2012 No.	Issued during year No.	Lapsed during year No.	Exercised during year No.	Balance at 30 June 2013 No.
Director					
Mr Andrew Plympton	-	-	-	-	-
Mr Damian London	-	-	-	-	-
Ms Sophie Karzis	-	-	-	-	-
Mr Mark Goulopoulos	8,647,565	-	-	-	8,647,565
Mr Domenic Carosa	17,019,759	-	-	-	17,019,759
Total	25,667,324	-	-	-	25,667,324

(j) Shareholdings of Directors

Director	Balance at 1 July 2012 No.	Issued during year No.	Cancelled during year No.	Sold during year No.	Balance at 30 June 2013 No.
Mr Andrew Plympton	-	-	-	-	-
Mr Damian London	34,518,667	-	-	-	34,518,667
Ms Sophie Karzis	-	-	-	-	-
Mr Mark Goulopoulos	8,100,000	-	-	-	8,100,000
Mr Domenic Carosa	40,478,565	-	-	-	40,478,565
Total	83,097,232	-	-	-	83,097,232

(k) Shareholdings of Executives

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

(l) Compensation of key management personnel of the Group

	2013 $	2012 $
Short-term benefits	**251,029**	242,673
Post-employment benefits	**15,228**	11,745
Total Compensation	**266,257**	254,418

(m) 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.

25. RELATED PARTY DISCLOSURE (cont'd)

(n) 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 2013 $	Consolidated 2012 $
Related party payables		
Accrued superannuation & annual leave payable to Directors	**25,289**	11,745
Accrued fees payable to Non-Executive Directors	**1,884**	2,200
Total related party payables	**27,173**	13,945

Other transactions with Director-related entities

During the financial year ended 30 June 2013 there were no other transactions with Director-related entities (2012: 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.

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 AdFeed, the syndication online advertising business and Footar, the premium advertising 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.

Operating Segments

	2013		
	AdFeed	**Footar**	**Consolidated**
	$	**$**	**$**
Segment Revenue			
External Sales	1,687,500	1,091,018	2,778,518
Total segment revenue	1,687,500	1,091,018	2,778,518
Segment net profit before tax	**322,750**	**286,403**	**609,153**
Reconciliation of segment result to group net profit			
Finance Cost			**(5,294)**
Corporate costs			**(558,388)**
Group net loss before tax			**45,471**
Assets			
Segment assets	**510,304**		**510,304**
Corporate asset			**596,766**
Total Group Assets			**1,107,070**
Liabilities			
Segment liabilities	**(466,223)**		**(466,223)**
Corporate liability			**(1,884)**
Total Group Liabilities			**(468,107)**

26. SEGMENT INFORMATION (cont'd)

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)**

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 92% of AdFeed 2013 revenue. The customer is in the AdFeed division and generated revenue of $1,548,941 (2012: $1,719,922)

Sales from customer B account for 97% of Footar 2013 revenue. The customer is in the Footar divison and generated revenue of $1,059,129 (2012: 839,234).

DIRECTORS' DECLARATION

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

In accordance with a resolution of the directors of AdEffective Limited and its controlled entities, I state that:

1. In the opinion of the directors:

   (a) the financial statements and notes of Adeffective Limited and its controlled entities for the financial year ended 30 June 2013 are 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 2013 and of its performance for the year ended on that date; and

      (ii) complying with Accounting Standards and the Corporations Regulations 2001;

   (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a); and

   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors by the chief executive officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2013.

On behalf of the board

Andrew Plympton
Non-Executive Chairman

Melbourne, 27 September 2013

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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 2013, 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

Opinion

In our opinion:

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 2013 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.

Building a better
working world

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 the consolidated entity's ability to continue as a going concern is dependent on the consolidated entity being successful in generating continued positive operating cashflows, and if required, its capacity to raise capital to fund the Company's operations and growth plans.

Accordingly without funding from positive operating cashflows and if the Company were unable to raise capital if required, there would be 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.

Report on the remuneration report

We have audited the Remuneration Report included in pages 14 to 17 of the directors' report for the year ended 30 June 2013. 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 2013 complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Ashley Butler
Partner
Melbourne
27 September 2013

ASX SECURTIES EXCHANGE INFORMATION

Number of Holdings of Equity Securities as at 27 August 2013

The fully paid issued capital of the Company consisted of 207,901,921 ordinary fully paid shares held by 1,659 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 27 August 2013

Range	Total holders	Units	% Issued capital
1 – 1,000	1,063	140,646	0.068%
1,001 – 5,000	199	534,556	0.257%
5,001 – 10,000	92	728,056	0.350%
10,001 – 100,000	172	6,641,892	3.195%
100,001 – 999,999,999	133	199,856,771	96.130%
1,000,000,000 – 9,999,999,999	0	0	0.00
Rounding			0.00
Total	**1,659**	**207,901,921**	**100.00**

Unmarketable Parcels as at 27 August 2013

Unmarketable Parcels	Minimum parcel size	Holders	Units
Minimum $ 500.00 parcel at $ 0.017 per unit	29,412	1,442	2,990,965

Substantial Shareholders as at 27 August 2013

Rank	Shareholder	No.	%
1.	MP3 AUSTRALIA PTY LTD	40,478,565	19.47
2.	PLANET W PTY LTD	33,518,667	16.12
3.	CHRIS RETZOS	19,659,424	9.46

Twenty Largest Holders of Quoted Equity Securities as at 27 August 2013

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.	TIGER DOMAINS PTY LTD <TIGER DOMAINS UNIT A/C>	13,158,088	6.33
4.	TIGER DOMAINS PTY LTD <TIGER DOMAINS UNIT A/C>	12,960,477	6.23
5.	T E & J PASIAS PTY LTD	9,000,000	4.33
6.	SAM GOULOPOULOS PTY LTD <S GOULOPOULOS F/SUPER A/C>	8,500,000	4.09
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.	G & N LORD SUPERANNUATION PTY LTD <GNR SUPERANNUATION FUND A/C>	3,684,017	1.77
12.	ATLANTIS MG PTY LTD <MG FAMILY A/C>	3,500,000	1.68
13.	SOMNUS PTY LTD <SOMNUS SUPERANNUATION A/C>	3,313,912	1.59
14.	MR RUSSELL HUTCHINSON	3,274,800	1.58
15.	RETZOS INVESTMENTS PTY LTD <RETZOS ALTONA PROPERTY A/C>	3,260,233	1.57
16.	MR CHRIS RETZOS	3,000,000	1.44
17.	BRODEA PTY LTD <GONINON INVESTMENT A/C>	2,566,399	1.23
18.	MR CHRIS RETZOS + MRS SUSIE RETZOS <RETZOS FAMILY S/FUND A/C>	2,500,000	1.20
19.	ADVANCE PUBLICITY PTY LTD <THE IZMAR FAMILY A/C>	2,250,411	1.08
20.	ASSURANCE CAPITAL PTY LTD	2,084,017	1.00
Top 20 Holders of Ordinary Fully Paid Shares as at 27 August 2013		**139,269,403**	**66.99**
Total Remaining Holders Balance		**68,632,518**	**33.01**

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 1, 61 Spring 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.