Cocoon Data Holdings Limited
and its controlled entities
ACN 127 993 300

Annual financial report
30 June 2012

Contents

Cocoon Data Holdings Limited and its controlled entities
Directors' report
For the year ended 30 June 2012

The directors of Cocoon Data Holdings Limited ("the Company") present their report together with the financial statements of the Cocoon Data Holdings Group ("the Group"), being the Company and its controlled entities, for the financial year ended 30 June 2012 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Philip King – Executive Chairman
Appointed: 26 July 2010
Executive Director: 1 September 2011 – present

Philip was appointed Chairman on 14 June 2011, and since 24 April 2012, has been Executive Chairman. Philip was the Company's Chief Executive Officer (Acting) from 1 September 2011 to 24 April 2012.

Philip has been a senior executive in a diverse range of financial services and IT businesses for over 30 years. Prior to moving to Australia from the UK in 1990 to consult to one of Australia's largest banks, Philip held senior management and consulting roles in some of the world's leading financial services institutions in the UK, Europe and South Africa.

Since 2008, Philip has been a partner in Asia Principal Capital Ltd in Singapore and since 2010 a partner in Asia Principal Capital Pty Ltd in Sydney, both being boutique investment banking and corporate advisory businesses focusing on IT and technology, financial services and healthcare. He has been a private equity investor for 20 years and has significant company director experience.

Philip holds a BA (Honours) degree in Economics and Accounting and a Masters degree in Computing.

Trent Telford – Director
Appointed: 15 October 2007
Non-Executive Director: 1 September 2011 - present

Trent is the founder of Cocoon Data and has over 15 years' experience in the IT industry, working in Asia, Europe and Australia. He has practiced in most aspects of the industry from global banking, e-business and telecommunications; both as a consultant and on the client side. Trent has also had success with previous start-ups, most notably founding a digital marketing and SMS communication company that he grew to Australia's 3rd largest in partnership with the largest ASX listed advertising group in the country, STW Group Ltd.

With previous start-up company experience and many years as a senior management consultant in identity management, security and risk to major banks, defence and government. Trent brings a wealth of industry and technology related experience to the Group.

Philip Argy - Director
Appointed: 17 May 2010
Non-Executive Director

Philip has more than 38 years' experience in technology and law disciplines and is a commercial mediator, arbitrator, negotiator and strategist. He is a past President of the Australian Computer Society and he is Chairman of the eCommerce Committee of the Law Council of Australia. He was a member of the Electronic Commerce Expert Group that advised Australia's Attorney-General on the establishment of the Electronic Transactions Act and was a partner at Mallesons Stephen Jaques for 24 years.

Philip has a wealth of experience and expertise to contribute to the Company in fields as diverse as intellectual property, trade practices, digital certificates, computer programming, ethics, business process re-engineering, corporate governance and application useability optimisation.

Philip holds a Bachelor of Commerce/Law degree from the University of NSW.

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Directors (continued)

Joseph Miller - Director
Appointed: 01 February 2012
Non-Executive Director

Since 2003, Joseph has been a Managing Director at Europlay Capital Advisors, LLC ("ECA"). ECA is a Los Angeles based boutique merchant bank and financial advisory firm that services and invests in companies in the technology, media, telecom, life sciences and consumer sectors. ECA's clients and investments include such notable companies as Skype, rdio, vdio, KaZaa, Multigig, Noveda and Unicom Media. Joseph currently serves on the boards of several of these companies including vdio, Unicom Media and Noveda. In the past, Joseph has also served on the boards of Talon International, Multigig and has also served on both the Compensation and Audit Committees of Skype Global.

From 1996 to 2003, Joseph was a Vice President and Senior Vice President at Houlihan Lokey Howard & Zukin ("HLHZ"), a leading middle-market investment bank, where he was focused on transactions in the Entertainment and Media group, and serviced such clients as Warner Bros, Chrysalis, EMI Group and Dreamworks amongst many others.

From 1994 to 1996, Joseph served as the Vice President of Corporate Development for Alliance Communications Corporation, Canada's leading independent producer and distributor of filmed entertainment where he was involved in several high profile transactions, including its US-based listing on NASDAQ and many acquisitions.

Joseph holds a bachelor's degree in Economics/Business from UCLA and holds Series 7, Series 24 and Series 63 securities licenses.

Charles Archer - Director
Appointed: 07 March 2012
Executive Director

Charles is the Chairman of Covata USA, Inc and responsible for business development activities for the Group in the US.

Charles is a senior executive with Government and Industry experience of exceptional breadth and access. Charles culminated his 28 years of US Federal Government service as Assistant Director of the FBI in charge of the FBI's Criminal Justice Information Services Division (CJIS). He was appointed by the US Attorney General to SES-6, the highest civil-service rank in the US Government. Charles is one of the few FBI alumni to have held every position in the FBI throughout his career, giving him a unique perspective on the real-world challenges of law enforcement and national security.

Since leaving government Charles has held several senior executive positions at large government contractors including Litton PRC and Northrop Grumman, as well as with technology driven government vendors include Identix, L-1 Identity Solutions and Stratesec, where he was President & CEO of a publicly-traded security company. Charles has also headed multiple winning Industry Capture Teams in the Government Sector for major integrators and leading manufacturers.

Peter Janke – Director & Chief Executive Officer
Appointed: 24 April 2012
Executive Director

Peter has some 40 years of management experience, having held various leadership roles within US aerospace companies, system integrators, resellers and small businesses. He is a well-known and respected executive in the Federal IT community whose career successes at companies such as Raytheon, CSC, Unisys, and others have been built upon a platform of honesty, efficiency, and focus on the fundamentals of each business. His background includes senior business development roles, operating executive experience at the C-level, board and advisory work, and financial management. Peter serves on the Government Advisory Board of TechAmerica as well as others.

Peter holds degrees from the University of Wisconsin and Georgetown University and has completed Executive courses at the Harvard Business School.

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Directors' report
For the year ended 30 June 2012

Directors (continued)

Kevin Bermeister - Director
Appointed: 24 April 2012
Non-Executive Director

Kevin is a technologist, real estate entrepreneur, investor and an active author of opinion editorials for the Huffington Post. He is a benefactor and supporter of numerous charitable organizations and was recently awarded the Yeshiva Center Leadership in Philanthropy Award and has received numerous similar awards in the past.

Kevin is currently Chairman and CEO of Brilliant Digital Entertainment, Inc., and its subsidiary, Altnet, Inc. He has developed substantial businesses in the computing, multimedia and Internet industries. In 1982 he established Ozisoft, one of the first interactive multimedia companies and Australia's largest video games distributor. In 1994 he established the $70 million interactive Sega World Sydney theme park operated through a joint venture which included Sega Enterprises Japan, Mitsubishi Corp. and Mitsui Corp. In 1996, Kevin founded Brilliant Digital Entertainment Inc. and developed various Internet interests including a transaction with Joltid Limited to establish Altnet Inc. a company focused on peer to peer network solutions for content providers, consumers, and enterprise. Altnet became a distributor of the KaZaa music service, distributing music via subscription pursuant to agreements with the major record labels and independent labels.

Kevin sits on the boards of various companies and has been a founding investor in several successful startups including Skype.

Jack Singleton - Director
Appointed: 14 April 2008
Resigned: 25 October 2011

Philip Cuff - Director
Appointed: 13 December 2010
Resigned: 15 May 2012

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Directors' report
For the year ended 30 June 2012

Company Secretary

Nicholas Chiarelli
Nicholas was appointed Company Secretary on 1 December 2010.

Nicholas has over 10 years' experience in the finance industry, covering a broad range of commercial and chartered roles. Prior to joining Cocoon, Nicholas worked in business services at Crowe Horwath Sydney (previously WHK Horwath) where he spent 2 years managing the taxation and compliance affairs of, and advising to, a wide range of SME's and high net wealth individual clients.

Prior to this Nicholas resided in London working in private equity and financial services with a variety of reporting roles (financial/regulatory, investor related and valuations) at 3i Group, Bank of New York Mellon and Man Investments.

Nicholas is a member of the Australian Institute of Chartered Accountants, and holds a Bachelor of Business (Accounting Major, Management Studies Sub Major, and Tourism Management Sub-Major) from the University of Technology, Sydney.

Directors meetings
The number of directors' meetings held and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings	
	A	B
Trent Telford	13	13
Philip Argy	12	13
Philip King	13	13
Joseph Miller	4	5
Charles Archer	3	4
Peter Janke	1	1
Kevin Bermeister	4	5
Jack Singleton	0	5
Philip Cuff	12	12

A – Number of meetings attended
B – Number of meetings held during the time the director held office during the year

Principal activities and review of operations

During the financial year the principal activity of the Group was the development and commercialisation of intellectual property primarily in the field of data security technology. The Group recorded a loss after tax of $11,128,513 for the year to 30 June 2012 (2011: $2,090,878). Included within this loss are fair value movements totalling $5,514,878, representing the fair value impact on profit and loss arising from convertible notes, options and warrants issued during the year. The loss after tax excluding these non-cash items is $5,613,635.

During the year the Group earned technology related revenues of $218,223 (2011: $1,312,920).

As at 30 June 2012 the Group had a net asset deficiency of $2,790,827 (2011: $1,183,940 deficiency). Contributing to this was $7,291,992 of convertible notes which have been classified as non-current liabilities in accordance with the requirements of AASB 132 *Financial Instruments: Presentation*.

Despite the above, the 2012 financial year was a year of progress. As set out below, the Group recruited a highly experienced management team, and confirmed global interest in its technology. The Group's approach to 'protecting the data and not the environment or device' appears to be a realistic and viable alternative for governments and corporations who have historically invested in firewalls, anti-virus software, malware protection and so forth. The Group also confirmed that selling our 'capability' was not going to lead to acceptable revenues and shareholder returns and that the future lies in building robust and scalable 'products', both standalone and integrated with third party products and services.

Cocoon Data Holdings Limited and its controlled entities
Directors' report
For the year ended 30 June 2012

Principal activities and review of operations (continued)

During the year the Group invested heavily in infrastructure, premises and security; in staffing; in further IP development, protection and certification; and, most significantly, in understanding the pre-requisites for and the demands of a potential launch of Cocoon in the United States.

The failure to derive anticipated revenues in Australia despite our best efforts e.g. with the Australian Government, was disappointing; however we did make progress in other aspects of our Australian business. During the year we achieved DSD Cryptographic Evaluation (DCE) certification, which effectively allows classified data to be encrypted using our technology and 'downgraded' to 'declassified whilst encrypted' and then sent over unclassified networks using software and not hardware cryptography. In addition, we cemented further relationships with large integrators in both the US and Australia. We remain committed to delivering revenue in Australia.

However, the revenue delays did 'trigger' a commitment to explore other markets in detail. These other markets by necessity have a pre-disposition to addressing cyber security threats and are demonstrably larger than Australia. Specifically, focus was applied to two markets: the UK and the US. We concluded that the US represents a more fruitful option even if this required us, initially, to build further 'capability' to demonstrate that we can deliver what we promise to our customers. The net of our investigation was that it was time for substantial change and in April 2012, after a 6 month investigation and review period, we committed to launch in the US and appointed new and deeply experienced global management based in the US.

The appointment of new US management and the changes at Board level culminated in late June with the development of a robust plan for the US and Australia for the year ahead. By financial year end new management had been inducted, new processes had been introduced and the commitment to development of 'products' entrenched in the development plans and processes.

Also this financial year, we prepared for the launch of a new brand, Covata, and work continues in this area as we launch the new business in the US with a new brand and we change the brand in Australia from Cocoon to Covata.

The Group has 9 patent applications pending including the European Patent Office (that now has 38 member states). The Group has a further 11 new patent applications submitted as International PCT applications. Intellectual property is the new battleground for technology companies, and we remain committed to enhancing our portfolio through innovation.

As disclosed previously, in April 2010 the Group commenced legal proceedings against a US incorporated company for non-performance in relation to a failed joint venture. On 29 July 2011 the Supreme Court of Victoria gave a judgment in the Group's favor for an amount of $250,961 plus legal costs. The Board is currently investigating the recovery of the monetary awards.

Throughout the year and in support of the above, capital was raised from a variety of sources, principally in the form of convertible notes. A number of notes were converted during the year. Most significantly, at the date of signing this report the Company has an effective share price of 15c. We are pleased to have been able to raise substantial capital in a challenging macroeconomic environment.

Cocoon Data Holdings Limited and its controlled entities
Directors' report
For the year ended 30 June 2012

Significant changes in the state of affairs

In the opinion of the directors, there have been no significant changes in the state of affairs of the Group during the financial year other than those disclosed elsewhere in the financial report or notes thereto.

Environmental regulation

The Group's operations are not subject to significant environmental regulations under both the Commonwealth and State legislation in relation to its activities.

Dividends

No dividends were paid or declared by the Company to members since the end of the previous financial year (2011: nil).

Dividends declared after end of year

There have been no dividends declared subsequent to year end.

Events subsequent to reporting date

Since 30 June 2012, 33,333,333 shares have been issued at $0.15 per share, raising $5,000,000 in cash.

The financial effect of this event has not been included in the financial statements as at 30 June 2012.

Other than the matter discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Options

During the year the Group issued 22,110,000 options at a fair value of $0.02 to directors, employees and consultants. These were issued for nil consideration. At 30 June 2012 a total of 20,610,000 options had vested. These are exercisable for ordinary shares at $0.22 per share and have an expiry date of 9 March 2016.

Subsequent to year end 7,620,000 vested options lapsed in accordance with the terms of the Cocoon Data Holdings Limited Director & Employee Share Option Plan Rules.

The Company issued an additional 1,000,000 options in conjunction with a cash investment for ordinary shares, for nil additional consideration, which are exercisable for ordinary shares at $0.22 per share. The options expire on 9 March 2016. Options exercisable for ordinary shares do not entitle the holder to participate in any other share issue of the Group.

Warrants

During the year the Group issued 55,238,583 warrant shares to Europlay Capital Advisors, LLC and 14,687,000 warrant shares to Asia Principal Capital Limited in connection with their active involvement in the Group. Warrant shares have a ten year term and are exercisable for ordinary shares at $0.10 per warrant share.

Likely developments

Information as to likely developments in the operations of the Group and the expected results of those operations in subsequent years has not been included in this report because disclosure of this information would be likely to result in unreasonable prejudice to the Group.

Cocoon Data Holdings Limited and its controlled entities
Directors' report
For the year ended 30 June 2012

Indemnification and insurance of officers and auditors

Indemnification

The Company has agreed to indemnify the directors and the company secretary for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position in the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

The Company has not entered into an agreement to indemnify the auditors of the Company.

The disclosure of the nature of the insurance cover and the amount of the premiums involved is prohibited by the contract.

Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 10 and forms part of the directors' report for the financial year ended 30 June 2012.

This report is made in accordance with a resolution of the directors:

Philip King

Philip King
Chairman

Dated at Sydney this 31st day of October 2012.

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Cocoon Data Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Adam Twemlow
Partner

Bundall

31 October 2012

Cocoon Data Holdings Limited and its controlled entities
Consolidated statement of comprehensive income
For the year ended 30 June 2012

	Note	2012	2011 Restated*
Revenue – technology related products and services		218,223	1,312,920
Research & development tax concession		1,401,747	904,928
Other income		3,549	62,512
Communication expenses		(253,904)	(198,362)
Consultancy fees expense		(983,611)	(360,102)
Depreciation and amortisation expense	12	(165,462)	(85,939)
Employee benefit expense		(3,393,501)	(2,318,908)
Foreign currency exchange expense		(25,292)	-
Patent expense		(205,655)	(69,532)
Legal fees expense		(381,143)	(250,774)
Marketing and promotion expense		(203,461)	(167,970)
Travel and accommodation expense		(493,568)	(273,230)
Office and administration expenses		(276,225)	(120,082)
Professional fees expense		(665,407)	(133,308)
Other direct research and development project expenses		(143,790)	(142,132)
Fair value of warrants issued – consultancy fees		(4,847,981)	-
Other expenses		(283,149)	(181,533)
Results from operating activities		(10,701,633)	(2,013,710)
Finance income	11	38,441	982
Finance costs	11	(466,321)	(73,148)
Net finance costs		(426,880)	(72,166)
Loss before income tax		(11,128,513)	(2,090,876)
Income tax expense	8	-	-
Loss for the year		(11,128,513)	(2,090,876)
Other comprehensive income			
Foreign currency translation differences – foreign operation		11,308	-
Total comprehensive loss for the year		(11,117,205)	(2,090,876)

* See note 2(f)

The notes on pages 15 to 44 are an integral part of these consolidated financial statements.

Cocoon Data Holdings Limited and its controlled entities
Consolidated statement of changes in equity
For the year ended 30 June 2012

	Share Capital	Foreign Currency Translation Reserve	Share Options Reserve	Warrants Reserve	Accumulated losses	Total Equity
Balance at 1 July 2010	6,029,766	-	-	-	(6,716,204)	(686,438)
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(2,090,876)	(2,090,876)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive loss	-	-	-	-	(2,090,876)	(2,090,876)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Ordinary shares issued	1,385,399	-	-	-	-	1,385,399
Share based payments	275,125	-	-	-	-	275,125
Capital raising costs	(67,150)	-	-	-	-	(67,150)
Total contributions by and distributions to owners	1,593,374	-	-	-	-	1,593,374
Balance at 30 June 2011	7,623,140	-	-	-	(8,807,080)	(1,183,940)
Balance at 1 July 2011	7,623,140	-	-	-	(8,807,080)	(1,183,940)
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(11,128,513)	(11,128,513)
Other comprehensive income	-	11,308	-	-	-	11,308
Total comprehensive loss	-	11,308	-	-	(11,128,513)	(11,117,205)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Ordinary shares issued	3,571,250	-	-	-	-	3,571,250
Share based payments	588,382	-	524,905	4,347,981	-	5,961,268
Capital raising costs	(22,000)	-	-	-	-	(22,000)
Total contributions by and distributions to owners	4,137,632	-	524,905	4,347,981	-	9,510,518
Balance at 30 June 2012	11,760,772	11,308	524,905	4,347,981	(19,935,593)	(2,790,627)

The notes on pages 15 to 44 are an integral part of these consolidated financial statements

Cocoon Data Holdings Limited and its controlled entities
Consolidated statement of financial position
As at 30 June 2012

	Note	2012	2011 Restated*
Assets			
Cash and cash equivalents	7	2,714,564	288,776
Trade and other receivables	9	1,894,204	935,817
Prepayments		5,111	3,502
Other assets	10	16,889	19,808
Total current assets		4,630,768	1,247,903
Other assets	10	93,316	50,698
Property, plant and equipment	12	559,988	155,152
Intangible assets	13	-	-
Total non-current assets		653,304	205,850
Total assets		5,284,072	1,453,753
Liabilities			
Trade and other payables	14	640,617	859,498
Loans and borrowings	15	-	1,700,000
Employee benefits	16	122,090	78,195
Total current liabilities		762,707	2,637,693
Loans and borrowings	15	7,311,992	-
Total non-current liabilities		7,311,992	-
Total liabilities		8,074,699	2,637,693
Net liabilities		(2,790,627)	(1,183,940)
Equity			
Share capital	17	11,760,772	7,623,140
Reserves		5,384,194	-
Accumulated losses		(19,935,593)	(8,807,080)
Total deficiency		(2,790,627)	(1,183,940)

* See note 2(f)

The notes on pages 15 to 44 are an integral part of these consolidated financial statements

Cocoon Data Holdings Limited and its controlled entities
Consolidated statement of cash flows
For the year ended 30 June 2012

	Note	2012	2011
Cash flows used in operating activities			
Cash receipts from customers		129,392	1,425,563
Cash paid to suppliers and employees		(6,493,109)	(4,034,787)
Cash used in operations		(6,363,717)	(2,609,224)
R&D rebates received		904,928	597,444
Net cash used in operating activities	8	(5,458,789)	(2,011,780)
Cash flows used in investing activities			
Interest received		38,441	982
Payment for deposits		(29,490)	(34,507)
Acquisition of property, plant and equipment		(565,296)	(162,823)
Net cash used in investing activities		(556,345)	(196,648)
Cash flows from financing activities			
Proceeds from issue of convertible notes		6,895,000	1,400,000
Proceeds from loans received		20,000	-
Proceeds from the issue of share capital		1,860,000	1,035,359
Interest paid		(29,038)	(73,148)
Payment of convertible note issue costs		(283,040)	-
Payment of share issue costs		(22,000)	(67,150)
Net cash from financing activities		8,440,922	2,295,101
Net increase in cash and cash equivalents		2,425,788	86,673
Cash and cash equivalents at 1 July		288,776	202,103
Cash and cash equivalents at 30 June	7	2,714,564	288,776

The notes on pages 15 to 44 are an integral part of these consolidated financial statements.

Cocoon Data Holdings Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 30 June 2012

1. **Reporting entity**
Cocoon Data Holdings Limited ("the Company") is a company domiciled in Australia. The address of the Company's registered office is Level 4, 156 Clarence Street, Sydney, New South Wales. The consolidated financial statements of the Company as at and for the year ended 30 June 2012 comprise the Company and its subsidiaries (together referred to as "the Group" and individually as "Group entities"). The Group is a for-profit entity primarily involved in the development and commercialisation of intellectual property primarily in the field of data security technology.

2. **Basis of preparation**

(a) Statement of compliance
The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the directors on the 31 October 2012.

(b) Basis of measurement
The consolidated financial statements have been prepared on the historical cost basis except for financial instruments classified at fair value through profit or loss which are measured at fair value.

(c) Functional and presentation currency
These consolidated financial statements are presented in Australian dollars, which is the majority of the Group's functional currency.

(d) Use of estimates and judgements
The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 2 (e) – Going concern
- Note 6 – Recognition of deferred tax assets
- Note 13 – Intangible assets - recoverable amount
- Note 15 – Loans and borrowings
- Note 21 – Share based payments

Cocoon Data Holdings Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 30 June 2012

2. Basis of preparation (continued)

(e) Going concern

The financial statements of the Group have been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business.

The Group is in the development and commercialisation stage of its data security technology. During the year ended 30 June 2012 the Group incurred a loss after tax of $11,128,513, including revenue of $218,223 and cash used in operating activities of $5,458,789 for the year then ended. As at 30 June 2012, the Group has a deficiency in net assets of $2,790,627 and surplus in net current assets of $3,968,061.

As outlined in Note 24, the following event occurred subsequent to year-end:

- 33,333,333 shares were issued at $0.15 per share raising $5,000,000 in cash.

Management have prepared cash flow projections to 31 October 2013 that support the Group's ability to continue as a going concern. The achievement of these cash flow projections is critically dependent upon the following assumptions:

- The Group receiving approximately $1,400,000 in November 2012 from the ATO for research & development tax concessions;
- The Group being able to raise additional cash funding through the issue of debt and/or equity securities, in addition to the funding received subsequent to year end as disclosed in Note 24; and
- The Group maintaining expenditure levels in line with available funding.

The directors of the Company consider that each of these critical assumptions can be achieved, and in the longer term, significant revenues can be generated from the commercialisation of intellectual property, and accordingly, the Group will be able to continue as a going concern.

In the event that the Group cannot continue as a going concern, it may not realise its assets and settle its liabilities in the normal course of operations and at the amounts stated in the financial statements.

(f) Change in accounting policy

On 1 July 2011 the Group changed its accounting policy with respect to the disclosure of refundable research and development (R&D) tax incentives in the statement of comprehensive income. Previously, the Group recognised these tax incentives in accordance with AASB 112 *Income Taxes*, with the tax credit presented in profit or loss as a reduction in the current tax expense. From 1 July 2011, the Group now recognises any refundable R&D tax incentives in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. This has the effect of disclosing the tax incentive as other income as part of pre-tax losses in the statement of comprehensive income.

The Group believes that as the tax incentives are collectable, even if the Group has no taxable income, these incentives are in substance government grants, and hence accounting for the incentives in accordance with AASB 120 is more appropriate.

The change in accounting policy was applied retrospectively and reduces the 30 June 2011 loss before income tax by $904,928, although there is no impact on the total comprehensive loss for the 30 June 2011 financial year.

The effect on the statement of comprehensive income was as follows:

	2011
Other income	904,928
Income tax benefit	(904,928)
Effect on total comprehensive loss for the year	-

Tax assets have been reclassified as R&D rebate receivable in the consolidated statement of financial position (note 9).

3. Significant accounting policies

Apart from the change in accounting policy outlined in note 2(f) the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables, term deposits and rental bonds.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Cocoon Data Holdings Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 30 June 2012

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Loans and borrowings and trade and other payables

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

(iii) Share capital

Ordinary shares

Ordinary share capital is classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

(iv) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefit. On conversion, the financial liability is reclassified to equity; no gain or loss is recognised on conversion.

(v) Convertible notes classified at fair value through profit or loss

When a convertible note is identified to contain an embedded derivative, the whole contract is measured and accounted for at fair value through profit or loss, unless the derivative is able to be measured reliably, in which case it is separated from the host contract and accounted for separately at fair value through profit or loss. Any gains or losses arising on the instrument upon fair valuing at inception are not immediately recognised as a gain or loss in profit or loss, but are instead deferred and recognised as a gain or loss in profit or loss on a systematic basis over the life of the instrument. Any subsequent movement in the fair value of financial instruments that are carried at fair value through profit or loss are recognised directly in profit or loss within finance expenses.

Transaction costs of financial liabilities that are carried at fair value through profit or loss are expensed in profit or loss.

Cocoon Data Holdings Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 30 June 2012

3. Significant accounting policies (continued)

(c) Foreign currency transactions
(i) Transactions and balances
Transactions in foreign currencies are translated to the functional currency of the Group at an exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the investment in a foreign operation.

(ii) Group companies
The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

(d) Property, plant and equipment
(i) Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation
Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on either a straight line or reducing balance basis depending on the type of asset over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

• Office equipment	3 – 10 years
• Computer equipment	2 – 5 years
• Communications equipment	2 – 5 years

Leasehold improvements are depreciated over the life of the lease. The residual value, the useful life and the depreciation method applied to an asset are reviewed at each financial year end and adjusted if appropriate.

3. **Significant accounting policies (continued)**

(e) **Intangible assets**

(i) Intangible assets

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(iii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Amortisation

Amortisation is calculated over the cost of the asset, or another amount substituted for cost, less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite, from the date they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Intangible assets with indefinite useful lives are systematically tested annually for impairment.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

3. Significant accounting policies (continued)

(f) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Finance costs comprise interest and transaction expenses on borrowings, including convertible notes. Borrowing costs are recognised in profit or loss using the effective interest method.

(g) Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest and transaction expenses on borrowings, including convertible notes. Borrowing costs that are not directly attributable to acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Cocoon Data Holdings Limited and its controlled entities
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3. Significant accounting policies (continued)

(h) Employee benefits

(i) Long-term service benefits
The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the reporting date which have maturity dates approximating to the terms of the Group's obligations.

(ii) Short-term service benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(iii) Share-based payment transactions
The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(i) Revenue

(i) Services
Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns and discounts. Revenue is derived from various products and services which are accounted for differently. The method used is selected on the basis of that which best represents the nature of the contract.

Revenue from licence sales of software products is recognised when all of the risks and rewards have been transferred to the customer, usually only after the delivery, installation and client acceptance of the products.

Revenue derived from support activities is recognised on a straight-line basis over the support period.

Revenue relating to a contractual arrangement to develop customised software is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

(ii) Government grants
An unconditional government grant is recognised in profit or loss as other income when there is reasonable assurance that the grant will be received and the Group will comply with the conditions associated with the grant.

(j) Operating lease payments
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

(k) Share based payments
Equity settled share based payment transactions are measured by valuing the goods or services received. If the fair value of the goods or services received cannot be reliably estimated, the share based payment transaction is recorded at the fair value of shares issued and is recognised as an expense with a corresponding increase in equity measured by reference to the value of the equity instruments granted.

3. Significant accounting policies (continued)

(l) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax expenses are recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of cash dividends are recognised at the same time as the liability to pay the related dividend is recognised. The Group does not distribute non-cash assets as dividends to its shareholders.

Tax consolidation

The Company and its wholly-owned Australian resident entities formed a tax-consolidated group from 1 July 2009. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is Cocoon Data Holdings Limited.

Current tax expense / income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'stand-alone taxpayer' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to / (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The head entity recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Cocoon Data Holdings Limited and its controlled entities
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3. Significant accounting policies (continued)

(m) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group, except for AASB 9 Financial Instruments, which becomes mandatory for the Group's 2016 financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

Cocoon Data Holdings Limited and its controlled entities
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4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Intangible assets

The fair value of intangible assets acquired is based on the fair value of the consideration transferred, being cash and shares in the company.

(b) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(d) Share-based payment transactions

The fair value of equity settled share based payment transactions is determined with reference to recent share issues for cash consideration in arm's length transactions.

The fair value of employee share options is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility, expected term of the instrument (based on historic experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(e) Convertible notes measured at fair value through profit or loss

The fair value of those convertible notes that are measured at fair value through profit or loss have been measured using a Monte Carlo Simulation method. Measurement inputs include the outstanding loan balance at measurement date, the share price at measurement date, the conversion price, expected volatility of the company share price over the life of the instrument, expected dividend yield, the expected life of the instrument and the risk-free interest rate.

5. Auditors' remuneration

	2012	2011
Audit and other services	**$**	**$**
Auditors of the Company		
KPMG Australia:		
Audit of financial report	40,000	30,000
Other non-audit services	10,000	17,600
	50,000	47,600

6. Income tax expense

Current tax expense/(benefit)	**2012** **$**	**2011** **$** Restated*
Current year	-	-
Deferred tax expense		
Origination and reversal of temporary differences	-	-
Total income tax benefit	-	-

Numerical reconciliation between tax expense and pre-tax net profit

	2012	2011
Loss before tax	(11,128,513)	(2,090,876)
Income tax using the domestic corporation tax rate of 30% (2011: 30%)	(3,338,554)	(627,263)
Increase in income tax expense due to:		
Permanent differences	2,468,887	354,369
Effect of tax losses and temporary differences not taken to account	869,667	272,894
Income tax benefit on pre-tax net profit	-	-

Unrecognised deferred tax assets
Deferred tax assets have not been recognised in respect of the following items:

	2012	**2011**
Tax losses and temporary differences	2,473,060	1,503,393
	2,473,060	1,503,393

* See note 2(f)

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items. Deferred tax assets will be recognised when there is greater certainty of future taxable profits being earned by the Group against which the Group can utilise the benefits from.

7. Cash and cash equivalents

	2012	**2011**
Cash at bank	2,714,564	288,778

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8. Reconciliation of cash flows from operating activities

Cash flows from operating activities	**2012**	**2011**
Loss for the year	(11,125,513)	(2,090,376)
Adjustments for:		
Unrealised foreign exchange	28,252	-
Depreciation and amortisation	165,462	85,939
Share based payments	5,862,168	275,124
Net finance costs	426,880	72,166
Provision for doubtful debts	77,000	-
	(4,568,711)	(1,657,547)
Increase in trade and other receivables	(713,453)	(242,066)
Increase in prepayments	(1,609)	(1,170)
Decrease in trade and other payables	(218,381)	(167,984)
Increase in provisions and employee benefits	43,595	57,087
Net cash used in operating activities	(5,458,789)	(2,011,780)

9. Trade and other receivables

Current	**2012**	**2011** Restated*
R&D rebate receivable	1,401,747	904,928
Trade receivables	78,053	2,673
Other receivable	307,400	5,129
GST receivable	107,004	23,087
	1,894,204	935,817

During the year the Group assessed the recoverability of trade receivables and recorded an impairment loss of $77,000.

* See note 2(f) the Group's exposure to credit risk and impairment losses to trade and other receivables are disclosed in Note 18.

10. Other assets

Current	**2012**	**2011**
Term deposits	16,889	10,000
Other deposits	-	9,808
	16,889	19,808

Non-Current		
Rental bonds	83,107	50,698
Domain names	15,209	-
Investment in joint venture*	222,821	222,821
Less impairment provision	(222,821)	(222,821)
	98,316	50,698

*During the 2010 financial year, the Group made payments ($222,821) to an unrelated US incorporated company for the purposes of forming a new joint venture company to be incorporated in the US. In April 2010 the Group commenced legal proceedings against this company in relation to the failed joint venture. On 29 July 2011 the Supreme Court of Victoria gave a judgement in the Group's favour for an amount of $250,961 plus legal costs. The Board is currently actively pursuing the recovery of the monetary awards. At 30 June 2012 there is insufficient evidence to suggest that these monies will be collected and therefore no reversal of the impairment provision has been made.

Cocoon Data Holdings Limited and its controlled entities
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For the year ended 30 June 2012

11. Finance income and finance costs

	2012	2011
Finance income		
Interest income on cash held	38,441	982
	38,441	982
Finance costs		
Interest expense on financial liabilities measured at amortised cost	(2,070)	(6,888)
Net change in fair value of financial liabilities at fair value through profit or loss	(141,992)	-
Interest expense on interest bearing convertible note financial liabilities	(38,219)	(66,260)
Transaction costs incurred on issue of convertible notes	(283,040)	-
	(465,321)	(73,148)
Net finance costs recognised in profit or loss	(426,880)	(72,166)

12. Property, plant and equipment

	Office equipment	Computer equipment	Communication equipment	Leasehold improvements	Total
Cost					
Balance at 1 July 2010	29,770	83,750	-	-	113,520
Additions	5,208	152,566	5,051	-	162,825
Disposals	-	-	-	-	-
Balance at 30 June 2011	34,978	236,316	5,051	-	276,345
Balance at 1 July 2011	34,978	236,316	5,051	-	276,345
Additions	29,078	195,362	2,866	337,990	565,296
Disposals	-	-	-	-	-
Balance at 30 June 2012	64,056	431,678	7,917	337,990	841,641

	Office equipment	Computer equipment	Communication equipment	Leasehold improvements	Total
Depreciation and impairment losses					
Balance at 1 July 2010	4,744	30,508	-	-	35,252
Depreciation charge for the year	5,635	77,246	3,058	-	85,939
Disposals	-	-	-	-	-
Balance at 30 June 2011	10,379	107,754	3,058	-	121,191
Balance at 1 July 2011	10,379	107,754	3,058	-	121,191
Depreciation charge for the year	9,403	97,507	1,741	56,811	165,462
Disposals	-	-	-	-	-
Balance at 30 June 2012	19,782	205,261	4,799	56,811	286,653
Carrying amounts					
At 1 July 2010	25,026	53,242	-	-	78,268
At 30 June 2011	24,599	128,562	1,993	-	155,154
At 30 June 2012	44,274	226,417	3,118	281,179	554,988

Cocoon Data Holdings Limited and its controlled entities
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13. Intangible assets

	Intellectual property	Total
Cost		
Balance at 1 July 2010	700,000	700,000
Acquisitions	-	-
Disposals	-	-
Balance at 30 June 2011	700,000	700,000
Balance at 1 July 2011	700,000	700,000
Acquisitions	-	-
Disposals	-	-
Balance at 30 June 2012	700,000	700,000

Amortisation and impairment losses	Intellectual property	Total
Balance at 1 July 2010	(700,000)	(700,000)
Amortisation for the year	-	-
Impairment	-	-
Balance at 30 June 2011	(700,000)	(700,000)
Balance at 1 July 2011	(700,000)	(700,000)
Amortisation for the year	-	-
Impairment	-	-
Balance at 30 June 2012	(700,000)	(700,000)

Carrying amounts	Intellectual property	Total
At 1 July 2010	-	-
At 30 June 2011	-	-
At 1 July 2011	-	-
At 30 June 2012	-	-

The intellectual property was purchased during the 2008 financial year for consideration of $100,000 in cash and shares in the Company with a fair value of $600,000. Due to there being insufficient cash flows from operations to support the carrying value of the intellectual property, the directors resolved to impair the carrying value during the year ended 30 June 2008. As at 30 June 2012, there is insufficient evidence to support that the recoverable amount of the intellectual property has increased and therefore no reversal of impairment has been recorded.

The directors do not consider the current stage of development to satisfy the criteria for capitalisation of research and development expenses, and therefore all such expenses were recognised in profit or loss during the financial year. This is reassessed whenever a change in events indicate the Group may have potentially satisfied the criteria for capitalisation of development expenditure.

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14. Trade and other payables

Current liabilities		2012	2011
Trade payables		109,340	155,424
Amounts owing to related parties	22	152,298	155,332
Amounts owing to shareholders		25,000	25,000
Income received in advance		60,000	60,413
Other payables and accrued expenses		293,979	463,319
		640,617	859,488

Details of amounts owing to related parties is disclosed in Note 22.
The Group's exposure to liquidity risk related to trade payables is disclosed in Note 18.

15. Loans and borrowings

Current liabilities	2012	2011
Convertible notes	-	300,000
Converting notes	-	1,400,000
	-	1,700,000

Non-Current liabilities	2012	2011
Convertible notes	7,291,992	-
Loan	20,000	-
	7,311,992	-

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rates and liquidity see Note 18. No amount of convertible notes have been classified as equity.

The terms and conditions of outstanding convertible notes issued during the year ended 30 June 2011 were as follows:

Issue year	Maturity year	Base conversion price	Interest rate	Principal value	Carrying value 30 June 2011
2010	2012	$0.10	15%	300,000	300,000
2011	2012	$0.11	nil	1,400,000	1,400,000
				1,700,000	1,700,000

The terms and conditions of outstanding convertible notes issued during the year ended 30 June 2012 were as follows:

Issue year	Maturity year	Base conversion price	Interest rate	Principal value	Carrying value 30 June 2012
2012	2014	$0.15	nil	4,000,000	4,032,649
2012	2015	$0.10	nil	2,500,000	2,609,343
2012	2015	$0.10	nil	650,000	650,000
				7,150,000	7,291,992

15. Loans and borrowings (continued)

The convertible notes issued during the financial year are convertible at the lower of the above stated conversion price, or the lowest price at which any options, warrants or similar instruments issued by the Company are capable of being converted, or for which any shares in the capital of the Company have been issued or converted by any person or entity since the issue date of the convertible notes.

Unless certain provisions around the liquidity of the Company are met, the note holders may elect to have the principal amount repaid in full at the maturity date.

The convertible notes issued during the year were deemed to contain an embedded derivative and as such the whole instrument was valued at fair value through profit or loss.
The carrying value of the convertible notes issued during the financial year is reconciled as follows:

	$
Face value at inception	7,150,000
Movement in fair value to 30 June 2012	141,992
Carrying value at 30 June 2012	7,291,992

The movement in fair value includes amortisation of the deferred 'day one' fair value loss of $177,786. The remaining balance of the 'day one' fair value loss at 30 June 2012 is $2,491,732 (2011:nil).

The fair value of the convertible notes issued during the financial year was measured using the Monte Carlo Simulation method. The inputs used in the measurement of the fair values of the convertible notes were as follows:

At Inception	**28 Feb 2012**	**30 Jun 2012**	**22 May 2012**
Maturity Date	28/02/2015	28/02/2015	22/05/2014
Principal	$2,500,000	$650,000	$4,000,000
Share Price	$0.11	$0.11	$0.11
Volatility	48%	48%	48%
Risk-free Rate	3.62%	2.44%	2.53%
Dividend Yield	Nil	Nil	Nil
Base Conversion Price	$0.10	$0.10	$0.16
Interest Rate	%0	%0	%0
Conversion	At Maturity	At Maturity	At Maturity

At 30 June 2012:	**28 Feb 2012**	**30 Jun 2012**	**22 May 2012**
Maturity Date	28/02/2015	28/02/2015	22/05/2014
Principal	$2,500,000	$650,000	$4,000,000
Share Price	$0.11	$0.11	$0.11
Volatility	48%	48%	48%
Risk-free Rate	2.44%	2.44%	2.63%
Dividend Yield	Nil	Nil	Nil
Base Conversion Price	$0.10	$0.10	$0.16
Interest Rate	%0	%0	%0
Conversion	At Maturity	At Maturity	At Maturity

During the prior period, the Group issued converting notes with a carrying amount of $1,400,000 which converted between 25 February 2012 and 3 May 2012 to 12,727,270 shares in the company.

During the year a convertible note with a carrying value of $311,250 converted to 3,112,500 shares in the company.

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16. Employee benefits

	2012	2011
Current		
Provision for annual leave	122,090	73,195

There are no long term service benefits that require a provision at 30 June 2012. (2011: nil).

17. Capital and reserves

Share capital

	Ordinary shares	
	2012	2011
Number of shares		
On issue at 1 July	152,503,059	134,049,658
Issued for cash	32,870,071	15,994,693
Issued for non-cash	5,348,020	2,458,708
On issue at 30 June – fully paid	190,721,150	152,503,059

	2012	2011
Cost	$	$
On issue at 1 July	7,623,140	6,029,766
Issued for cash	3,571,250	1,385,399
Less share issue costs	(22,000)	(67,150)
Issued for non-cash	588,382	275,125
On issue at 30 June – fully paid	11,760,772	7,623,140

The Company does not have authorised capital or par value in respect of its issued shares.

Fully paid ordinary shares carry the following rights:

- the right to a return of capital in proportion to the amount of the total issue price paid or credited as being paid on the share on a winding up of the company; and
- the right to participate in any dividends; and
- the right to vote at general meetings of the company.

Share issues during the year ended 30 June 2012:

- From 1 July 2011 to 17 January 2012, the Company issued 16,909,089 shares at approximately $0.11 per share for $1,860,000 cash for working capital. A further 121,212 shares were issued in relation to funds raised in the prior year.
- The Company also issued 4,448,020 shares at approximately $0.11 per share as share based payments to suppliers and consultants during this period. This share issue price represented fair value of the shares issued at the time of issue based on the share issue price from the most recent arm's length capital raising.
- An additional 900,000 shares were issued at $0.11 per share as share based payments to a supplier in relation to an expense in the prior period.
- On 11 April 2012 a convertible note with an issue date of 25 June 2010 and a face value of $311,250 converted into 3,112,500 shares at $0.10 per share. The share price was determined in accordance with the terms of the convertible note agreement.

Cocoon Data Holdings Limited and its controlled entities
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17. Capital and reserves (continued)

Share issues during the year ended 30 June 2012 (continued)

- Between 25 February 2012 and 3 May 2012 convertible notes with a combined face value of $1,400,000 converted into 12,727,270 shares at $0.11 per share.

Share issues during the year ended 30 June 2011:

- From 1 July 2010 to 9 November 2010, the Company issued 3,033,233 shares at approximately $0.15 per share for $455,000 cash for working capital. The Company also issued 1,796,587 shares at approximately $0.11 per share as share based payments to suppliers and consultants during this period. This share issue price represented fair value of the shares issued at the time of issue based on the share issue price from the most recent arm's length capital raising. On 30 September 2010 a convertible note with an issue date of 20 May 2009 and a face value of $350,000 converted into 7,926,507 shares at approximately $0.04 per share. The share price was determined in accordance with the terms of the convertible note agreement.
- From 10 November 2010 to 31 January 2011, the Company issued 3,459,082 shares at approximately $0.11 per share for $380,499 cash for working capital. The Company also issued 862,121 shares at $0.11 per share as share based payments to suppliers and consultants during this period, which represented fair value of the shares issued, based on the share issue price from the most recent arm's length capital raising.
- From 31 January 2011 to 30 June 2011, the Company issued 666,667 shares at approximately $0.15 per share for $100,000 cash for working capital. On 30 June 2011 a convertible note with a face value of $100,000 converted into 909,091 shares at approximately $0.11 per share.

Dividends

2012

There were no dividends declared or paid during the year (2011: Nil).

Dividend franking account	**The Company**	
	2012	**2011**
30 per cent franking credits available to shareholders of Cocoon Data Holdings Limited for subsequent financial years.	-	-

Nature and purpose of reserves

Share options/warrants reserve

The share options/warrants reserve is used to recognise the grant date fair value of options/warrants issued but not exercised.

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Cocoon Data Holdings Limited and its controlled entities
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18. Financial instruments

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

* credit risk
* liquidity risk
* market risk

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. As outlined in Note 9, Trade Receivables as at 30 June 2012 were $78,053 (2011: $2,673). Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions, rental bonds, other receivables, R&D rebate receivable from the ATO and GST receivable from the ATO.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the characteristic of each customer. During the year ended 30 June 2012 an amount of $77,000 was recorded for impairment loss on trade receivables. The Group's trade and other receivables relate to the provision of technology and related services. The Group does not require collateral in respect of trade and other receivables.

(b) Credit risk (continued)

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

		Carrying Amount	
Consolidated	Note	**2012**	**2011**
Trade and other receivables	9	1,894,204	535,817
Other assets	10	115,205	121,204
Cash and cash equivalents	7	2,714,564	253,776
		4,723,973	1,345,797

The aging of the Group's trade and other receivables at the reporting date that were not impaired was:

		Carrying Amount	
		2012	**2011**
Current		1,816,151	535,817
Past due 0 – 30 days		5,500	-
Past due 30 – 90 days		72,553	-
	9	1,894,204	535,817

At 30 June 2012 an impairment of $77,000 was recognised in relation to a customer debt deemed to no longer be recoverable (2011: $32,631).

The Group believes that unpaid accounts that are past due and not impaired are stil collectable based on historic payment behaviour and analysis of customer credit risk.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, where possible, that it will always have sufficient liquidity to meet its liabilities when due.

Ultimate responsibility for liquidity management rests with the directors. The Group ensures that, where possible, it has sufficient cash on demand to meet expected net cash outflows, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Liquidity risk

The following are the contractual maturities of the Group's financial liabilities, including estimated interest:

30 June 2012	**Carrying amount**	**Contractual cash flow**	**6 months or less**	**6 months or more**
Trade and other payables	640,617	640,617	640,617	-
Loans and borrowings	7,311,992	7,170,000	20,000	7,150,000
	7,952,992	7,810,617	660,617	7,150,000
30 June 2011				
Trade and other payables	859,498	859,498	859,498	-
Loans and borrowings	1,700,000	315,000	315,000	-
	2,559,498	1,174,498	1,174,498	-

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(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the Australian dollar (AUD).

Exposure to currency risk

The summary of quantitative data about the Group's exposure to foreign currency risk provided to management of the Group based on its risk management policy was as follows:

	USD 2012
Cash at bank	841,622
Trade payables	(55,209)
Net statement of financial position exposure	786,413

The Group had no exposure to foreign currency risk in the prior period.

The following significant exchange rates applied during the year:

	Average Rate		Reporting date spot rate	
AUD	2012	2011	2012	2011
USD	0.979	-	0.984	-

Sensitivity analysis

A strengthening (weakening) of the AUD, as indicated below, against the USD at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases.

	Strengthening		Weakening	
	Equity	Profit or loss	Equity	Profit or loss
30 June 2012				
USD (5 percent movement)	37,000	-	(37,000)	-

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Market risk (continued)

(iii) Interest rate risk

The Group adopts a policy to minimise exposure to interest rate risk by depositing excess funds in interest bearing accounts that are variable rate. Interest rates on certain debt instruments have been fixed to ensure the Group is not exposed to adverse movements in interest rates.

Interest rate risk

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was:

Variable rate instruments	Carrying amount	
	2012	**2011**
Cash and cash equivalents	2,714,564	268,776
	2,714,564	268,776

Fixed rate instruments	Carrying amount	
	2012	**2011**
Financial assets	16,889	10,000
Financial liabilities	(20,000)	(300,000)
	(3,111)	(290,000)

Fair value sensitivity for fixed rate instruments

The Group does not account for any fixed rate financial assets or liabilities at fair value through profit or loss therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would not have had a material effect on the loss for the current or prior period.

Sensitivity analysis on convertible notes:

At 30 June 2012, if the volatility had moved, as illustrated in the table below, with all other variables held constant, the post tax loss and equity would have been affected as follows

	Post tax loss Higher/(Lower)	**Post tax loss Higher/(Lower)**	**Total equity Higher/(Lower)**	**Total equity Higher/(Lower)**
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**
+10% Volatility	489,780	-	489,780	-
-10% Volatility	(514,377)	-	(514,377)	-

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(d) Market Risk (continued)

At 30 June 2012, if the share price of Cocoon Data Holdings Limited shares had moved, as illustrated in the table below, with all other variables held constant, the post-tax loss and equity would have been affected as follows

	Post tax loss Higher/(Lower) 2012 $	Post tax loss Higher/(Lower) 2011 $	Total equity (Higher)/Lower 2012 $	Total equity (Higher)/Lower 2011 $
+$0.05 Share Price	826,558	-	826,558	-
- $0.05 Share Price	(118,129)	-	(118,129)	-

Fair values
The fair values of financial assets and liabilities excluding convertible notes approximate their carrying amounts. See note 15 for the reconciliation of the fair value of convertible notes to their carrying amounts.

(e) Capital management
The Board's aim is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business and increase shareholder value. The Board monitors the return on capital, which result from operating activities divided by total shareholders' equity. The Board ensures the Group has sufficient capital as required for working capital purposes. There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

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19. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2012	2011
Less than one year	218,067	15,966
Between one and five years	283,000	-
	501,067	15,966

During the financial year ended 30 June 2012, the Group leased office space under an operating lease. The lease located at 327 Pitt Street, Sydney expired on 30 September 2011. A 3 year lease for new premises located at Level 4, 156 Clarence Street, Sydney was signed on 29 July 2011, with a commencement date of 1 October 2011 and expiring on 29 July 2014. A new lease for additional office space located on Level 5, 156 Clarence Street, Sydney was signed on 25 June 2012, with a commencement date of 1 September 2012 and expiring on 29 July 2014.

During the financial year ended 30 June 2012 $181,067 was recognised as an expense in profit or loss in respect of operating leases (2011: $61,799).

20. Consolidated entities

	Country of	Ownership interest	
Parent entity	Incorporation	2012	2011
Cocoon Data Holdings Limited	Australia		
Subsidiaries			
Cocoon Data Pty Limited	Australia	100%	100%
Covata Australia Pty Limited*	Australia	100%	-
Covata IdeasLab Pty Limited*	Australia	100%	-
Covata Global Licensing Pty Limited*	Australia	100%	-
Covata USA, Inc.*	United States	100%	-

*incorporated during the current financial year

21. Share-based payment arrangements

At 30 June 2012 the Group has the following share-based payment arrangements:

Share option programme (equity-settled)

On 2 August 2011 the Group established a share option programme that entitles directors, employees and contractors to purchase shares in the Company. On 9 March 2012 17,110,000 share options were issued under this programme. In accordance with this programme, holders of vested options are entitled to purchase shares at $0.22 per share.

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21. Share-based payment arrangements (continued)

Share option programme (equity-settled) (continued)

The terms and conditions related to the grants of the share option programme are as follows: all options are to be settled by physical delivery of shares.

Grant details	Number of instruments	Vesting conditions	Contractual life of options
Option grant to key management on 9 March 2012 - fully vested	3,000,000	12 months employment with the Group	4 years
Option grant to key management on 9 March 2012 - unvested	-	12 months employment with the Group	4 years
Option grant to employees on 9 March 2012 - fully vested	12,610,000	12 months employment with the Group	4 years
Option grant to employees on 9 March 2012 - unvested	1,500,000	12 months employment with the Group	4 years
Total share options	17,110,000		

Share option allocation (equity-settled)

On 9 March 2012 the Group issued 5,000,000 fully vested share options to key management and contractors. Holders of vested options are entitled to purchase shares at $0.22 per share.

The terms and conditions related to the share option allocation are as follows; all options are to be settled by physical delivery of shares.

Grant details	Number of instruments	Vesting conditions	Contractual life of options
Option grant to key management on 9 March 2012	2,800,000	Options fully vested on grant date	4 years
Option grant to contractors on 9 March 2012	2,200,000	Options fully vested on grant date	4 years
Total share options	5,000,000		

On 9 March 2012 1,000,000 share options were issued in conjunction with a cash investment for ordinary shares. These were issued for nil consideration and are exercisable for ordinary shares at $0.22 per share and have 4 year expiry period.

Warrant allocation (equity-settled)

During the year the Group issued 69,923,583 warrant shares to service providers of the entity. Holders of the warrant shares are entitled to purchase shares at $0.10 per share.

The terms and conditions related to the warrant allocation are as follows; all options are to be settled by physical delivery of shares.

Grant details	Number of instruments	Vesting conditions	Contractual life of options
Warrant shares granted to service providers on 29 March 2012	52,644,759	Fully vested on grant date	10 years
Warrant shares granted to service providers on 11 May 2012	17,278,824	Fully vested on grant date	10 years
Total warrant shares	69,923,583		

22. Related parties

Key management personnel compensation

The key management personnel compensation comprised:

	2012	2011
Short-term employee benefits, including consulting fees	403,080	438,376
Share-based payments – direct shares issued	114,750	-
Share based payments – share options (note 21)	134,317	-
	652,147	438,376

Other transactions with directors and key management personnel

A number of key management persons hold positions in other entities that result in them having control or joint control over the financial or operating policies of those entities. A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

At 30 June 2012 the balance outstanding with key management personnel was $152,298 (2011: $155,332) primarily relating to shareholder approved non-executive director payments, and is included in amounts owing to related parties.

At 30 June 2012, Trent Telford was a controlling director of Telford OpCo Pty Ltd which provided consulting services to the Group. Consultancy fees of $141,000 were incurred by the Group during the year and were settled in cash. (2011: nil).

At 30 June 2012, Philip Cuff was a controlling director of My ID Pty Ltd which provided consulting services to the Group. Consultancy fees of $81,500 were incurred by the Group during the year and were settled in cash (2011: $nil).

At 30 June 2012, Philip Argy was a director of an entity that held a convertible note with a face value of $311,250 which converted into 3,112,500 shares during the year. The entity which held the convertible note acts as trustee for a superannuation fund, of which Philip Argy is a beneficiary. Interest of $38,219 was paid to the related party during the year (2011: $45,000).

During the year Philip Argy was issued with 1,000,000 options in conjunction with a cash investment for ordinary shares. These options are exercisable for ordinary shares at $0.22 per share. These options carry the same terms as those issued through the Director and Employee Share Scheme (DESOP). Philip Argy also provided the Group with legal advisory services worth $114,750 and was issued 1,043,182 shares as compensation.

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23. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2012 the parent company of the Group was Cocoon Data Holdings Limited.

	Note	Company 2012	2011
Result of the parent entity			
Loss for the period		(12,012,657)	(2,070,443)
Total comprehensive loss for the year		(12,012,657)	(2,070,443)
Financial positions of parent entity at year end			
Current assets		3,878,757	1,278,765
Non-current assets		435,011	155,152
Total assets		4,313,768	1,433,917
Current liabilities		707,390	2,637,693
Non-current liabilities		7,312,292	-
Total liabilities		8,019,683	2,637,693
Total equity of the parent entity comprising of:			
Share capital		11,760,772	7,623,140
Reserves		5,372,886	-
Accumulated losses		(20,839,573)	(8,826,916)
Total equity		(3,705,915)	(1,203,776)

Parent entity contingencies

The parent entity did not have any capital commitments or contingent liabilities at 30 June 2012 (2011: nil).

24. Events subsequent to reporting date

Since 30 June 2012 33,333,333 shares have been issued at $0.15 per share, raising $5,000,000 in cash.

The financial effect of this event has not been included in the financial statements as at 30 June 2012.

Other than the matter discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Cocoon Data Holdings Limited and its controlled entities

Directors' declaration

1 In the opinion of the directors of Cocoon Data Holdings Limited ("the Company"):

a) the consolidated financial statements and notes that are set out on pages 11 to 44, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance, for the financial year ended on that date; and

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

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

2 The directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Sydney this 31st day of October 2012.

Signed in accordance with a resolution of the directors:

Philip King

Philip King
Chairman

KPMG

Independent auditor's report to the members of Cocoon Data Holdings Limited

Report on the financial report

We have audited the accompanying financial report of Cocoon Data Holdings Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2012, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 24 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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*.

KPMG

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Material uncertainty regarding continuation as a going concern

Without modification of the above opinion, we draw attention to Note 2(e) to the financial report which indicates that the ability of the Group to continue as a going concern is dependent of the Group receiving funds relating to research and development concessions, obtaining additional cash funding through the issue of debt and/or equity securities and maintaining expenditure levels in line with available funding.

These conditions, along with other matters as set forth in Note 2(e), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern, and therefore whether the Group is able to realise its assets, and settle its liabilities at the amounts recorded in the financial statements.

KPMG

KPMG

Adam Twemlow
Partner

Bundall

31 October 2012