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

Annual financial report
30 June 2013

Contents

Cocoon Data Holdings Limited and its controlled entities
Directors' report

For the year ended 30 June 2013

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 2013 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: 28 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 40 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' report

For the year ended 30 June 2013

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 Unicorn Media. Joseph currently serves on the boards of several of these companies including vdio, Unicorn 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 1998 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 1998, 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 & Chief Executive Officer (Interim)
Appointed: 07 March 2012
Executive Director

Charles has been a director of the Company and Chairman of Covata USA, Inc since March 2012 and was appointed to the position of interim CEO effective 27 September 2013.

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 including 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.

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Directors' report

For the year ended 30 June 2013

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 organisations 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.

Peter Janke – Director & Chief Executive Officer
Appointed: 24 April 2012
Resigned: 27 September 2013
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.

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 managed the taxation and compliance affairs of, and advised 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.

Cocoon Data Holdings Limited and its controlled entities
Directors' report

For the year ended 30 June 2013

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	3	3
Philip Argy	3	3
Philip King	3	3
Joseph Miller	3	3
Charles Archer	3	3
Peter Janke	3	3
Kevin Bermeister	2	3

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 $8,387,076 for the year to 30 June 2013 (2012: $11,128,513). Included within this loss are fair value movements totalling $2,433,217 representing the fair value impact on profit and loss arising from capital raising instruments and share options issued during the year. The loss after tax excluding these non-cash items is $5,953,859.

During the year the Group earned technology related revenues of $177,351 (2012: $218,223).

As at 30 June 2013 the Group had a net asset deficiency of $2,938,974 (2012: $2,790,627 deficiency). Contributing to this was $8,585,817 of converting notes which have been classified as current liabilities ($5,089,740) and non-current liabilities ($3,496,077) in accordance with the requirements of AASB 132 *Financial Instruments: Presentation*.

The principal contributor to the loss for the financial year continued to be the commitment to invest in our technology and development capability. The investment has resulted in a new architecture and a world class development team. Market feedback throughout the year, particularly from the US, led us to refine our go to market strategy, focusing earlier on the 'sell through' than we had anticipated (we will continue to refine the messaging as required). Recognising that the demand for point to point security solutions was also in decline we decided to focus on creating a new architecture capable of supporting large volumes of transactions between multiple parties within an enterprise workflow whilst also enabling rapid development of client applications and supporting the 'Covata Inside' strategy.

The Covata brand was officially launched and a sales presence was established in Canberra. A number of important partner relationships have been established and others are under discussion in Australia and the US.

In August 2012 the Group entered into a strategic relationship with TPG Telecom Limited (TPG) that involved a cash injection of $10 million in exchange for investment in the Company and a 10 year licence for TPG to market and sell a suite of advanced technology products in Australia and New Zealand. Of the cash received, $2.7 million has under Australian accounting standards been accounted for as licence income received in advance, to be recognised proportionately over the 10 year life of the licence. TPG is a significant force in the Australian telecommunications industry and this relationship is of great significance to the Group. We look forward to developing a long and rewarding relationship with TPG and are excited about the potential revenue opportunities.

Cocoon Data Holdings Limited and its controlled entities
Directors' report

For the year ended 30 June 2013

Principal activities and review of operations (continued)

In late June 2013 Covata USA, Inc was included in the Mobile Device Management (MDM) system and Mobile Application Store (MAS) project that was recently awarded to Digital Management, Inc (DMI) by Defense Information Systems Agency (DISA)'s Defense Information Technology Contracting Organisation. The solution will offer an enterprise-level service capability for unclassified information processing that will allow DISA to move information wherever they need it, enabling them to put information in the hands of warfighters wherever they are. The complete system (MDM and MAS) will enable DISA to manage all devices and the applications that their warfighters use while ensuring their networks and information is secure and protected. The overall project value to DMI is for an initial amount of $2.9 million, with four six-month option periods for a total lifecycle amount of nearly $16 million. The base period of performance for this contract is July 2013 to July 2014. Whilst significant revenue is not expected to flow to Covata from this project in the early stages the 'win' is nonetheless of major significance as we look to establish credibility in the US Government market.

During the year the Group continued to pursue its IP strategy and on 15 February 2013 the Group's Singapore patent entitled *System and Method for Securing Data* was granted. Two new patent applications for extensions of the Secure Objects Technology were lodged during the year and a further patent application was lodged in July 2013. At the time of writing all three applications were pending. Objections to the Secure Objects Technology US Patent application have been robustly rebutted.

In regard to technology certification it was pleasing indeed to confirm that in July 2013 our core technology, Secure Objects C++ Cryptographic Module, was awarded FIPS 140-2 Level 1, Design Assurance Level 3 certification, through the National Institute of Standards and Technology (NIST). This critical affirmation, whilst taking far longer to achieve than previous assurances suggested, is a fundamental requirement to being able to sell directly to the US Government and its myriad agencies and will be favourably looked upon by current and prospective partners. This achievement removes an important objection often encountered in the US Government marketplace. At the time of writing, the Company's Secure Objects technology is also 'In-Evaluation' for Common Criteria EAL 2+ certification by the Australian Signals Directorate (ASD).

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 dating back to 5 August 2009. On 29 July 2011 the Supreme Court of Victoria gave a judgment in the Group's favour for an amount of $250,961 plus legal costs. After actively pursuing the recovery of the monetary awards for an extended period the Board has decided that as at 30 June 2013 the cost of pursuing the recovery of the monetary awards is disproportionate to the likely amount to be recovered and has therefore decided against pursuing further action.

At 27 September 2013 following an extensive review of the sales and marketing strategy and the development capability and future product thinking, the Board accepted the resignation of Peter Janke from the position of CEO and from the Boards of Cocoon Data Holdings Limited and its subsidiaries. Charles Archer was appointed to the position of interim CEO from 27 September 2013. A search for a new CEO is being undertaken.

The Board and staff remain optimistic about the prospects for the deployment of the technology and the revenue that would flow from such implementations. We are all frustrated by the time it has taken to get to where we are today and the lack of revenue for yet another year, noting in particular that a large part of the last financial year we were unexpectedly 'hostage' to achieving FIPS certification. Looking forwards, we understand our unique differentiators and we continue to refine our positioning in the market for security solutions. Selling security is never easy and finding the people to do it is just as hard. However, we are focused on delivering revenue and we believe we have the team and the technology to do so.

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.

Cocoon Data Holdings Limited and its controlled entities
Directors' report

For the year ended 30 June 2013

Dividends

No dividends were paid or declared by the Company to members since the end of the previous financial year (2012: nil).

Dividends declared after end of year

There have been no dividends declared subsequent to year end.

Options

Options granted to directors and executives of the Company

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares in the Company to the following directors and to the following of the five most highly remunerated officers of the Company as part of their remuneration.

	Number of options granted during the year	Number of options granted post year end
Directors		
Peter Janke	20,500,000	-
Charles Archer	6,795,000	100,000
Executives		
Joachim Winkler	9,300,000	200,000
	36,595,000	300,000

Unissued shares under options

At the date of this report unissued shares of the Group under option are:

Expiry date	Exercise price	Number of shares
9 March 2016	$0.22 AUD	14,280,000
24 July 2022	$0.11 USD	36,775,500
1 August 2022	$0.11 USD	2,000,000
17 December 2022	$0.11 USD	2,350,000
31 July 2023	$0.11 USD	1,650,000
		57,055,000

All unissued shares are ordinary shares of the Company.

Options issued to Australian based Participants (14,280,000 per the above table) expire on the earlier of the expiry date or termination of the employee's employment. Options issued to US based Participants (42,775,000 per the above table) expire on the earlier of the expiry date or three months from the termination of service (one year if termination is caused by death).

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

No options were exercised during or since the end of the financial year.

Cocoon Data Holdings Limited and its controlled entities
Directors' report

For the year ended 30 June 2013

Events subsequent to reporting date

Since 30 June 2013 1,650,000 share options have been issued to US based directors, employees and consultants for nil consideration. These are exercisable for ordinary shares at $0.11USD per share and have a ten year life.

Subsequent to year end 480,000 vested options lapsed in accordance with the terms of the Cocoon Data Holdings Limited Director & Employee Share Option Plan Rules.

In October 2013 the Company received $2,402,344 from the ATO for research & development tax concessions relating to the 30 June 2013 financial year.

The financial effect of these events has not been included in the financial statements as at 30 June 2013.

At 27 September 2013 the Board accepted the resignation of Peter Janke from the position of CEO and from the Boards of Cocoon Data Holdings Limited and its subsidiaries. Charles Archer was appointed to the position of interim CEO from 27 September 2013.

Other than the matters 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.

Likely developments

There are no material likely developments for the Group to disclose outside of normal business operations at the date of this report.

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 2013.

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

Philip King
Chairman

Dated at Sydney this 31st day of October 2013.

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 2013, 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 2013

Cocoon Data Holdings Limited and its controlled entities
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2013

	Note	2013	2012
Revenue – technology related products and services		177,351	218,223
Research & development tax concession		2,402,344	1,401,747
Other income		31,000	3,549
Communication expenses		(197,746)	(253,504)
Consultancy fees expense		(228,560)	(983,611)
Depreciation expense	12	(386,336)	(165,462)
Employee benefit expense	15	(7,364,802)	(3,393,501)
Foreign currency exchange expense		(579)	(28,292)
Patent expense		(166,589)	(225,658)
Legal fees expense		(131,479)	(381,143)
Marketing and promotion expense		(45,141)	(203,461)
Travel and accommodation expense		(207,340)	(493,968)
Office and administration expenses		(503,248)	(276,225)
Professional fees expense		(253,340)	(665,407)
Other direct research and development project expenses		(84,408)	(143,790)
Fair value of warrants issued – consultancy fees		(183,448)	(4,847,951)
Other expenses		(193,166)	(283,149)
Results from operating activities		(7,936,167)	(10,701,633)
Finance income	11	155,459	38,441
Finance costs	11	(606,368)	(465,321)
Net finance costs		(450,909)	(426,880)
Loss before income tax		(8,387,076)	(11,128,513)
Income tax expense	8	-	-
Loss for the year		(8,387,076)	(11,128,513)
Other comprehensive income			
Items that may be classified subsequently to profit or loss			
Exchange differences on translation of foreign operations		10,730	11,308
Total other comprehensive income		10,730	11,308
Total comprehensive loss for the year		(8,376,346)	(11,117,205)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Cocoon Data Holdings Limited and its controlled entities
Consolidated Statement of Changes in Equity
For the year ended 30 June 2013

	Note	Share Capital	Equity Conversion Reserve	Foreign Currency Translation Reserve	Share Options Reserve	Warrants Reserve	Accumulated Losses	Total Equity
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)
Total other comprehensive income		-	-	11,308	-	-	-	11,308
Total comprehensive income/(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	17	3,571,250	-	-	-	-	-	3,571,250
Share based payments – ordinary shares	17	588,382	-	-	-	-	-	588,382
Share based payments – share options & warrants	21	-	-	-	524,905	4,847,981	-	5,372,886
Capital raising costs	17	(22,000)	-	-	-	-	-	(22,000)
Total contributions by and distributions to owners		4,137,632	-	-	524,905	4,847,981	-	9,510,518
Balance at 30 June 2012		11,760,772	-	11,308	524,905	4,847,981	(19,935,593)	(2,790,627)
Balance at 1 July 2012		11,760,772	-	11,308	524,905	4,847,981	(19,935,593)	(2,790,627)
Total comprehensive income for the year								
Loss for the year		-	-	-	-	-	(8,387,076)	(8,387,076)
Total other comprehensive income		-	-	10,730	-	-		10,730
Total comprehensive loss			-	10,730	-	-	(8,387,076)	(8,376,346)
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Ordinary shares issued	17	3,666,667	-	-	-	-	-	3,666,667
Convertible notes issued	15	-	2,866,667	-	-	-	-	2,866,667
Share based payments – ordinary shares	17	16,606	-	-	-	-	-	16,606
Share based payments – share options & warrants	21	-	-	-	1,753,945	529,176	-	2,283,121
Share options lapsed	21	-	-	-	(199,159)	-	199,159	-
Capital raising costs	17	(607,062)	-	-	-	-		(607,062)
Total contributions by and distributions to owners		3,076,211	2,866,667	-	1,554,786	529,176	199,159	8,227,999
Balance at 30 June 2013		14,836,983	2,866,667	22,038	2,081,691	5,377,157	(28,123,510)	(2,938,974)

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Cocoon Data Holdings Limited and its controlled entities
Consolidated Statement of Financial Position
As at 30 June 2013

	Note	2013	2012
Assets			
Cash and cash equivalents	7	5,995,421	2,714,564
Trade and other receivables	9	2,719,247	1,794,204
Prepayments		5,329	5,111
Other assets	10	10,000	16,889
Total current assets		8,729,997	4,530,768
Other assets	10	175,116	98,316
Property, plant and equipment	12	519,413	554,988
Intangible assets	13	-	-
Total non-current assets		694,529	653,304
Total assets		9,424,526	5,184,072
Liabilities			
Trade and other payables	14	1,214,948	640,617
Employee benefits	16	187,575	122,090
Loans and borrowings	15	5,089,740	-
Total current liabilities		6,492,263	762,707
Trade and other payables	14	2,375,160	-
Loans and borrowings	15	3,496,077	7,311,992
Total non-current liabilities		5,871,237	7,311,992
Total liabilities		12,363,500	8,074,699
Net liabilities		(2,938,974)	(2,790,627)
Equity			
Share capital	17	14,836,983	11,760,772
Reserves		10,347,553	5,384,194
Accumulated losses		(28,123,510)	(19,935,593)
Total deficiency		(2,938,974)	(2,790,627)

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Cocoon Data Holdings Limited and its controlled entities
Consolidated Statement of Cash Flows
For the year ended 30 June 2013

	Note	2013	2012
Cash flows used in operating activities			
Cash receipts from customers		2,520,745	129,392
Cash paid to suppliers and employees		(7,342,615)	(6,493,109)
Cash used in operations		(4,821,870)	(6,363,717)
R&D rebates received		1,401,747	904,928
Net cash used in operating activities	8	(3,420,123)	(5,458,789)
Cash flows used in investing activities			
Interest received		155,459	38,441
Payment for deposits		(69,911)	(29,490)
Acquisition of property, plant and equipment		(324,025)	(565,296)
Net cash used in investing activities		(238,477)	(556,345)
Cash flows from financing activities			
Proceeds from issue of convertible notes		3,666,667	6,895,000
Proceeds from the issue of share capital		3,666,667	1,860,000
Proceeds from loans received		-	20,000
Repayment of borrowings		(20,000)	-
Interest paid		(5,517)	(29,038)
Payment of converting note issue costs		(168,360)	(283,040)
Payment of share issue costs		(200,000)	(22,000)
Net cash from financing activities		6,939,457	8,440,922
Net increase in cash and cash equivalents		3,280,857	2,425,788
Cash and cash equivalents at 1 July		2,714,564	288,776
Cash and cash equivalents at 30 June	7	5,995,421	2,714,564

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Cocoon Data Holdings Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 30 June 2013

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 2013 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 31 October 2013.

(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 Company's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS 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 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 8 – Recognition of deferred tax assets
- Note 13 – Intangible assets
- Note 14 – Licence income received in advance
- 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 2013

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 research, development and commercialisation stage of its data security technology. During the year ended 30 June 2013 the Group incurred a loss after tax of $8,387,076, including revenue of $117,351 and incurred cash outflows from operating activities of $3,420,123 for the year. As at 30 June 2013, the Group has a net current assets position of $2,237,734 but a deficiency in net assets of $2,938,974.

As outlined in Note 24, subsequent to year-end the Company received cash funds of $2,402,344 from the ATO for research & development tax concessions relating to the 30 June 2013 financial year.

Management have prepared cash flow projections to 31 October 2014 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 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/or
- The Group converting outstanding convertible notes with a carrying value of $5,080,740 at 30 June 2013 to equity in accordance with the respective agreements (see note 15); and/or
- 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 could 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) Changes in accounting policies

Presentation of transactions recognised in other comprehensive income

From 1 July 2012 the Group applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*. The change in accounting policy only relates to disclosures and has had no impact on consolidated net loss. The changes have been applied retrospectively and require the Group to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. These changes are included in the Statement of Profit or Loss and Other Comprehensive Income.

Cocoon Data Holdings Limited and its controlled entities
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For the year ended 30 June 2013

3. Significant accounting policies

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

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.

(iii) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(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 classifies non-derivative financial assets into the following categories:

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 cash and cash equivalents and, trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

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

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.

Non-derivative financial liabilities comprise loans and borrowings, debt securities issued and trade and other payables.

(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.

(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.

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) Foreign operations

The assets and liabilities of foreign operations are translated to the functional currency at the foreign exchange rate ruling at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such items are considered to form part of the net investment in the foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve in equity.

(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
• Software	3 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.

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3. Significant accounting policies (continued)

(f) Impairment

(i) Non-derivative Financial assets

A financial asset not classified as 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.

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.

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. Movements in the fair value of financial liabilities classified as at fair value through profit or loss are also classified within finance costs.

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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.

Revenue derived through licensing agreements is recognised on a straight-line basis over the licensing period.

(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.

Cocoon Data Holdings Limited and its controlled entities
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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.

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) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

3. Significant accounting policies (continued)

(o) New standards and interpretations not yet adopted
AASB 9 Financial Instruments (2010), AASB 9 Financial Instruments (2009)

AASB 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 (2010) introduces additions relating to financial liabilities.

The IASB currently has an active project that may result in limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets and hedge accounting.

AASB 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of AASB 9 (2010) 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.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities (2011)

AASB 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees.

Under AASB 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting.

- The Group's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Group's interest in those assets and liabilities.
- The Group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity accounted.

AASB 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. AASB 12 requires the disclosure of information about the nature, risks and financial effects of these interests.

These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

The Group is currently in the process of assessing the impact of these new standards on the financial results of the Group.

AASB 13 Fair Value Measurement (2011)

AASB 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout Australian Accounting Standards. Subject to limited exceptions, AASB 13 is applied when fair value measurements or disclosures are required or permitted by other AASBs. AASB 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

The Group is currently in the process of assessing the impact of this new standard on the financial results of the Group.

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) 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. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

(b) Non-derivative financial liabilities

Fair value is measured at initial recognition and, for disclosure purposes, at each annual reporting date. Fair value 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.

(c) 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.

(d) Converting notes measured at fair value through profit or loss

The fair value of those converting 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

	2013	2012
Audit and other services	**$**	**$**
Auditors of the Company		
KPMG Australia:		
Audit of financial report	50,000	50,000
Tax and accounting services	26,200	24,747
	76,200	74,747

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6. Income tax expense

Current tax expense/(benefit)	**2013 $**	**2012 $**
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		
Loss before tax	(8,387,076)	(11,128,513)
Prima facie income tax benefit at the Australian tax rate of 30% (2012: 30%)	(2,516,123)	(3,338,554)
Increase in income tax expense due to:		
Permanent differences	1,715,744	2,468,887
Effect of tax losses and temporary differences not taken to account	796,125	869,667
Temporary differences through equity	15,702	-
Effect of unrecognised tax losses carried forward now utilised	(11,452)	-
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:

	2013	**2012**
Tax losses and temporary differences	3,366,373	2,473,060
	3,366,373	2,473,060

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 there-from.

7. Cash and cash equivalents

	2013	**2012**
Cash at bank	5,555,421	2,714,564

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8. Reconciliation of cash flows from operating activities

Cash flows from operating activities	**2013**	**2012**
Loss for the year	(7,387,016)	(11,128,513)
Adjustments for:		
Unrealised foreign exchange	-	28,292
Depreciation	386,936	135,462
Share based payments	1,339,333	5,882,168
Net finance costs	450,909	436,880
Provision for doubtful debts	-	77,000
	(5,209,838)	(4,568,711)
Increase in trade and other receivables	(825,043)	(713,483)
Increase in prepayments	(218)	(1,609)
Increase/(decrease) in trade and other payables	2,549,491	(213,881)
Increase in provisions and employee benefits	65,485	43,895
Net cash used in operating activities	(3,420,123)	(5,453,789)

9. Trade and other receivables

Current	2013	2012
R&D rebate receivable	2,402,344	1,401,747
Trade receivables	265,967	78,053
Other receivable	-	307,400
GST receivable	46,936	107,004
	2,715,247	1,894,204

The Group's exposure to credit risk and impairment losses to trade and other receivables are disclosed in Note 18.

10. Other assets

Current	2013	2012
Term deposits	10,000	16,889
	10,000	16,889
Non-Current		
Rental bonds	159,907	83,107
Domain names	15,209	15,209
Investment in joint venture*	-	222,821
Less impairment provision	-	(222,821)
	175,116	98,316

*During the 2010 financial year, the Group made payments of $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. After actively pursuing the recovery of the monetary awards for an extended period the Board has decided at 30 June 2013 that the cost of pursuing the recovery of the monetary awards is disproportionate to the likely amount to be recovered and has therefore decided against pursuing further action.

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11. Finance income and finance costs

	2013	2012
Finance income		
Interest income on cash held	155,459	38,441
	155,459	38,441
Finance costs		
Interest expense on financial liabilities measured at amortised cost	(5,517)	(2,078)
Net change in fair value of financial liabilities at fair value through profit or loss	(490,076)	(141,992)
Interest expense on interest bearing converting note financial liabilities	(3,748)	(35,219)
Transaction costs incurred on issue of liability component of converting notes	(107,027)	(283,040)
	(606,368)	(465,321)
Net finance costs recognised in profit or loss	(450,909)	(426,880)

12. Property, plant and equipment

	Office equipment	Computer equipment	Communication equipment	Leasehold Improvements	Software	Total
Cost						
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
Balance at 1 July 2012	64,056	431,678	7,917	337,990	-	841,641
Additions	37,668	225,454	2,983	73,273	11,983	351,361
Disposals	-	-	-	-	-	-
Balance at 30 June 2013	101,724	657,132	10,900	411,263	11,983	1,193,002

	Office equipment	Computer equipment	Communication equipment	Leasehold Improvements	Software	Total
Depreciation and impairment losses						
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
Balance at 1 July 2012	19,782	205,261	4,799	56,811	-	286,653
Depreciation charge for the year	14,225	213,712	3,110	153,434	2,455	386,936
Disposals	-	-	-	-	-	-
Balance at 30 June 2013	34,007	418,973	7,909	210,245	2,455	673,589
Carrying amounts						
At 1 July 2011	24,599	128,562	1,993	-	-	155,154
At 30 June 2012	44,274	226,417	3,118	281,179	-	554,988
At 30 June 2013	67,717	238,159	2,991	201,018	9,528	519,413

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13. Intangible assets

	Intellectual property	Total
Cost		
Balance at 1 July 2011	700,000	700,000
Acquisitions	-	-
Disposals	-	-
Balance at 30 June 2012	700,000	700,000
Balance at 1 July 2012	700,000	700,000
Acquisitions	-	-
Disposals	-	-
Balance at 30 June 2013	700,000	700,000

Amortisation and impairment losses	Intellectual property	Total
Balance at 1 July 2011	(700,000)	(700,000)
Amortisation for the year	-	-
Impairment	-	-
Balance at 30 June 2012	(700,000)	(700,000)
Balance at 1 July 2012	(700,000)	(700,000)
Amortisation for the year	-	-
Impairment	-	-
Balance at 30 June 2013	(700,000)	(700,000)

Carrying Amounts	Intellectual property	Total
At 1 July 2011	-	-
At 30 June 2012	-	-
At 1 July 2012	-	-
At 30 June 2013	-	-

The intellectual property was purchased during the 2006 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 2013, 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 changes 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		**2013**	**2012**
Trade payables		78,739	109,340
Amounts owing to related parties	22	6,667	152,298
Amounts owing to shareholders		-	25,000
Licence income received in advance*		337,500	60,000
Other payables and accrued expenses		800,842	293,979
		1,214,548	640,617

Non-Current liabilities	**2013**	**2012**
Licence income received in advance*	2,375,160	-
	2,375,160	-

*During the year the Group entered into a strategic relationship with TPG Telecom Limited (TPG). In exchange for a $10,000,000 cash investment, TPG was provided with a 10 year exclusive licence (Australia and New Zealand, excluding government and defence markets) to sell, market and distribute certain advanced technology products. When considering the accounting substance of the transaction and with specific reference to AASB 132 *Financial Instruments: Presentation*, AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 118 *Revenue*, $2,666,667 of the TPG investment was recognised as licence income received in advance, to be recognised proportionately over the 10 year life of the licence.

Details of amounts owing to related parties are 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	**2013**	**2012**
Converting notes	5,089,740	-
	5,089,740	-

Non-Current liabilities	**2013**	**2012**
Converting notes	3,496,877	7,291,992
Loan	-	20,000
	3,496,877	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.

The terms and conditions of outstanding converting notes issued during the year ended 30 June 2013 were as follows:

Issue year	**Maturity year**	**Base conversion price**	**Interest rate**	**Principal value**	**Carrying value 30 June 2013**	**Carrying value 30 June 2012**
2013	*	$0.15	9%	800,000	805,748	-
				800,000	805,748	-

The terms and conditions of outstanding converting 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 2013**	**Carrying value 30 June 2012**
2012	2014	$0.15	nil	4,000,000	4,285,992	4,032,649
2012	2016	$0.10	nil	3,150,000	3,496,877	3,259,343
				7,150,000	7,782,869	7,291,992

*Maturity date is the date which is ten business days after the Company has issued sufficient ordinary shares in the Company to enable the converting note holder to convert without breaching the Takeover Provisions contained in Part 6.1 of the *Corporations Act 2001*.

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15. Loans and borrowings (continued)

The converting notes issued during the financial year convert at a fixed conversion price of $0.15 resulting in a fixed number of shares to be issued on conversion. The notes also contain a redemption clause that states that if before the maturity date any option or warrant issued by the Company expires or is cancelled, and such expiry/cancellation would result in a potential takeover breach if the note holder were to convert all of its notes, then the noteholder may request the Company to redeem the minimum number of notes that would ensure the noteholder would not be in breach of this clause. In the absence of this clause the converting notes would ordinarily be treated as equity instruments. The Company has hence recognised a redemption liability equivalent to the notional value of the converting notes that would need to be redeemed if all current outstanding options and warrants were to expire/cancel and the noteholder was to make such a request. The redemption clause also includes a requirement to pay interest on the liability component at the Corporate Reference Rate of the Commonwealth Bank of Australia. Interest of $3,748 has been accrued at 30 June 2013.

The carrying value of the converting notes issued during the financial year is reconciled as follows:

	$
Proceeds from issue of converting notes	3,666,667
Net proceeds	3,666,667
Amount classified as equity	(2,866,667)
Accreted interest	3,748
Carrying amount of liability at 30 June 2013	803,748

The converting notes issued during the prior year convert at the lower of the base 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 converting 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 converting notes issued during the prior year were deemed to contain an embedded derivative and as such the whole instrument was valued at fair value through profit or loss.

The fair value of the converting notes issued during the prior year is reconciled as follows:

	$
Fair value at 1 July 2012	7,291,992
Movement in fair value to 30 June 2013	490,077
Fair value at 30 June 2013	7,782,069

The movement in fair value includes amortisation of the deferred 'day one' fair value loss of $1,103,558. The remaining balance of the 'day one' fair value loss at 30 June 2013 is $1,378,374 (2012: $2,481,732).

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16. Employee benefits

	2013	2012
Current		
Provision for annual leave	187,575	122,090

There are no long term service benefits that require a provision at 30 June 2013. (2012: nil).

Employee benefit expense recognised in profit or loss

	2013	2012
Wages & salaries	5,135,350	2,316,112
Other short-term employee benefits	83,235	70,768
Termination benefits	26,538	-
Other employee related expenses	276,813	150,229
Payroll taxes	258,352	144,776
Contributions to defined contribution plans	428,845	186,711
Equity-settled share-based payments	1,755,945	524,905
	7,964,882	3,393,501

17. Capital and reserves

Share Capital

	Ordinary shares	
	2013	2012
Number of shares		
On issue at 1 July	190,721,150	152,503,059
Issued for cash	33,333,333	32,870,071
Issued for non-cash	115,556	5,348,020
On issue at 30 June – fully paid	224,170,039	190,721,150

	2013	2012
Cost	$	$
On issue at 1 July	11,760,772	7,623,140
Issued for cash	3,666,667	3,571,250
Less issue costs	(607,062)	(22,000)
Issued for non-cash	16,606	588,382
On issue at 30 June – fully paid	14,836,983	11,760,772

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

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.

17. Capital and reserves (continued)

Shares issued during the year ended 30 June 2013:

- During the year the Company issued 33,333,333 shares at $0.11 per share for $3,666,667.
- The Company also issued 115,556 shares at a weighted average $0.14 per share as share based payments to suppliers and consultants for services provided during the prior 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.

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.
- 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.

Dividends

2013

There were no dividends declared or paid during the year (2012: nil).

Dividend franking account	The Company	
	2013	**2012**
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.

Equity conversion reserve

The equity conversion reserve is used to recognise the amount allocated to the equity component of convertible notes issued but not exercised.

Foreign currency translation reserve

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

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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 2013 were $269,967 (2012: $73,053). 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. 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.

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	2013	2012
Trade and other receivables	9	2,719,247	1,894,204
Other assets	10	185,116	115,205
Cash and cash equivalents	7	5,995,421	2,714,564
		8,899,784	4,723,973

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

		Carrying Amount	
		2013	2012
Current		2,719,247	1,816,151
Past due 0 – 30 days		-	5,500
Past due 30 – 90 days		-	72,553
	9	2,719,247	1,894,204

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18. Financial instruments (continued)

(b) Credit risk (continued)

There have been no impairment losses recognised during the year (2012: $77,000).

Cash and cash equivalents

At 30 June 2013, the Group held cash and cash equivalents of $5,995,421 (2012: $2,714,564), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with reputable banks and financial institution counterparties, which are rated AA- to AAA+, based on rating agency 'Moody's rating'.

(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:

	Carrying amount	Contractual cash flow	6 months or less	6 months or more
30 June 2013				
Trade and other payables	3,590,107	3,590,107	1,081,614	2,508,493
Loans and borrowings – current*	5,089,740	5,089,740	803,748**	4,285,992
Loans and borrowings – non-current*	3,496,077	3,496,077	-	3,496,077
	12,175,924	12,175,924	1,885,362	10,290,562
30 June 2012				
Trade and other payables	640,517	640,517	640,517	-
Loans and borrowings – current*	-	-	-	-
Loans and borrowings – non-current*	7,311,992	7,170,000	20,000	7,150,000
	7,952,992	7,810,517	660,517	7,150,000

* Amounts relate to portion of converting notes classified as a liability, but are expected to be equity settled on their maturity date.

** Amount relates to potential redemption liability within the convertible note issued during the current financial year that would be payable in the event the redemption event were to occur (as disclosed in Note 15), however it is expected the amount will be equity settled on maturity of the converting note.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

18. Financial instruments (continued)

(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 has an insignificant exposure to currency risk as the majority of sales and purchases made are denominated in the same currency as the respective functional currency of the Group entity where the transaction is initiated.

(ii) 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 rate risk

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

Variable rate instruments	Carrying amount	
	2013	**2012**
Cash and cash equivalents	5,955,421	2,714,564
Financial assets – term deposits	104,417	-
	6,059,838	2,714,564

Fixed rate instruments	Carrying amount	
	2013	**2012**
Financial assets	-	16,889
Financial liabilities	-	(20,000)
	-	(3,111)

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.

(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 results 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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18. Financial instruments (continued)

(f) Fair value hierarchy
The fair values of financial assets and liabilities approximate their carrying amounts.

Converting notes classified as fair value through profit or loss have been designated as a Level 3 financial instrument. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The fair value of converting notes measured at fair value through profit or loss is calculated using the Monte Carlo Simulation method. Key inputs and assumptions used in the model at 30 June 2013 are as follows:

	Issued on 28 Feb 2012	Issued on 22 May 2012
Principal	$3,150,000	$4,000,000
Maturity date	28 February 2015	22 May 2014
Share Price	$0.11	$0.11
Expected volatility	48%	48%
Dividend yield	Nil	Nil
Base conversion price	$0.10	$0.18
Risk-free interest rate (based on government bonds)	2.54%	2.50%
Interest rate	0%	0%
Fair value @ 30 June 2013	**$4,311,149**	**$4,849,294**

Sensitivity analysis on fair value of converting notes:
At 30 June 2013, 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) 2013 $	Post tax loss Higher/(Lower) 2012 $	Total equity (Higher)/Lower 2013 $	Total equity (Higher)/Lower 2012 $
+10% Volatility	427,380	489,780	427,380	489,780
-10% Volatility	(429,325)	(514,877)	(429,325)	(514,877)

At 30 June 2013, 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) 2013 $	Post tax loss Higher/(Lower) 2012 $	Total equity (Higher)/Lower 2013 $	Total equity (Higher)/Lower 2012 $
+$0.05 Share Price	1,074,648	828,558	1,074,648	828,558
- $0.05 Share Price	(156,395)	(118,129)	(156,395)	(118,129)

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19. Operating leases
Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2013	2012
Less than one year	404,538	218,067
Between one and five years	360,835	283,000
	765,373	501,067

A 26 month lease for premises located at 11190 Sunrise Valley Drive, Reston, Virginia USA was entered into on 30 April 2013, with a commencement date from 1 June 2013.

During the financial year ended 30 June 2013, $328,028 was recognised as an expense in profit or loss in respect of operating leases (2012: $181,067).

20. Consolidated entities

	Country of	Ownership interest	
Parent entity	**Incorporation**	**2013**	**2012**
Cocoon Data Holdings Limited	Australia		
Subsidiaries			
Cocoon Data Pty Limited	Australia	100%	100%
Covata Australia Pty Limited	Australia	100%	100%
Covata IdeasLab Pty Limited*	Australia	-	100%
Covata Global Licensing Pty Limited*	Australia	-	100%
Covata USA, Inc.	United States	100%	100%

*deregistered during the current financial year

21. Share-based payment arrangements

At 30 June 2013 the Group has the following share-based payment arrangements:

Share option programme (equity-settled)

During the year the Group established a share option programme that entitles US based directors, employees and contractors to purchase shares in the Company. A total of 41,125,000 share options were issued under this programme during the year. In accordance with this programme, holders of vested options are entitled to purchase shares at $0.11USD per share.

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 date	No. of options	Exercise price $USD	Fair value at grant date $AUD	Vesting Conditions
24/07/2012	20,500,000	0.11	0.07	10% at employment commencement, 15% on the 1 year anniversary of employment commencement, remainder to vest over a period of 12 calendar quarters on the last day of each quarter commencing June 30, 2013.
24/07/2012	16,275,000	0.11	0.07	25% on the 1 year anniversary of employment commencement, remainder to vest over a period of 12 calendar quarters on the last day of each quarter commencing June 30, 2013.
1/08/2012	2,000,000	0.11	0.07	25% on the 1 year anniversary of employment commencement, remainder to vest over a period of 12 calendar quarters on the last day of each quarter commencing June 30, 2013.
17/12/2012	500,000	0.11	0.07	25% on the 1 year anniversary of employment commencement, remainder to vest over a period of 12 calendar quarters on the last day of each quarter commencing September 30, 2013.
17/12/2012	1,850,000	0.11	0.07	25% on the 1 year anniversary of employment commencement, remainder to vest over a period of 12 calendar quarters on the last day of each quarter commencing December 31, 2013.
	41,125,000			

The term of all options issued to US based participants is the shorter of ten years from the option grant date or three months from the termination of service (one year if termination is caused by death).

The fair value of the share options was based on an exercise price of $0.11USD translated at the exchange rate as at each grant date.

21. Share-based payment arrangements (continued)

Warrant allocation (equity-settled)

During the year the Group issued 14,000,000 warrant shares to third party service providers of the entity. Holders of the warrant shares are entitled to purchase shares at $0.16 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 8 August 2012	10,000,000	Fully vested on grant date	5 years
Warrant shares granted to service providers on 7 June 2013	4,000,000	Fully vested on grant date	5 years
Total warrant shares	14,000,000		

Measurement of fair values

The fair value of all share-based payment plans was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility.

Equity-settled share-based payment plans

The inputs used in the measurement of the fair values at grant date of the equity-settled share based payment plans were as follows:

	Share options*	Warrant shares
Fair value at grant date	$0.07	$0.07
Share price at grant date	$0.11	$0.11**
Exercise price	$0.11USD	$0.16
Expected volatility (weighted average)	48%	48%
Expected life (weighted average)	10 years	5 years
Expected dividends	Nil	Nil
Risk-free interest rate (based on government bonds)	*	3.04%

Employee expenses recognised in profit or loss	2013	2012
Share options granted - 2013	1,739,877	524,905
Share options granted - 2012	16,068	-
Total expense recognised as employee costs	1,755,945	524,905

During the year 8,600,000 vested options lapsed with a total fair value of $199,159 reducing the net amount recognised in the share options reserve for the ended 30 June 2013 to $1,556,786

Fair value of warrants issued – consultancy fees	2013	2012
Warrant shares granted	529,176	4,847,981
Total expense recognised	529,176	4,847,981

*Inputs relate to share options granted on 24 July 2012, 1 August 2012 and 17 December 2012. The risk free interest rates at each grant date were 2.74%, 3.03% and 3.35% respectively.

** As this relates to a non-employee transaction the share price was measured using the average share price over the service period.

21. Share-based payment arrangements (continued)

Reconciliation of outstanding share options and warrant shares

The number and weighted average exercise prices of share options and warrant shares is as follows:

	Number of share options 2013	Weighted average exercise price 2013	Number of warrant shares 2013	Weighted average exercise price 2013
Outstanding at 1 July	23,360,000	$0.22	69,923,583	$0.10
Forfeited during the year	8,600,000	$0.22	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Granted during the year	41,125,000	$0.11	14,000,000	$0.16
Outstanding at 30 June	55,885,000	$0.14	83,923,583	$0.11
Exercisable at 30 June	39,789,700	$0.15	83,923,583	$0.11

	Number of share options 2012	Weighted average exercise price 2012	Number of warrant shares 2012	Weighted average exercise price 2012
Outstanding at 1 July	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Granted during the year	23,360,000	$0.22	69,923,583	$0.10
Outstanding at 30 June	23,360,000	$0.22	69,923,583	$0.10
Exercisable at 30 June	21,610,000	$0.22	69,923,583	$0.10

The options outstanding at 30 June 2013 have a weighted average exercise price of $0.14 and a weighted average contractual life of 8 years. The warrant shares outstanding at 30 June 2012 have an exercise price of $0.10 and a weighted average contractual life of 9 years.

22. Related parties

Parent and ultimate controlling party

As at, and throughout, the financial year ended 30 June 2013, the parent and ultimate controlling party of the Group is Cocoon Data Holdings Limited.

Key management personnel compensation

The key management personnel compensation comprised:

	2013	2012
Short-term employee benefits, including consulting fees	516,480	395,929
Superannuation	11,130	7,151
Share-based payments – direct shares issued	-	114,750
Share based payments – share options (note 21)	1,588,048	134,317
	2,215,658	652,147

Other transactions with directors and key management personnel

At 30 June 2013 the balance outstanding with key management personnel was $6,667 (2012: $152,298) primarily relating to shareholder approved non-executive director payments, and is included in amounts owing to related parties.

At 30 June 2013, Trent Telford was a controlling director of Telford OpCo Pty Ltd, which provided consulting services to the Group in the prior year. $6,000 of these consulting services were settled by 44,849 ordinary shares at 1 July 2013. No consulting services were provided in the current year.

Cocoon Data Holdings Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 30 June 2013

23. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2013 the parent company of the Group was Cocoon Data Holdings Limited.

	Company 2013	Company 2012
Result of the parent entity		
Loss for the period	(5,275,821)	(12,012,657)
Total comprehensive loss for the year	(5,275,821)	(12,012,657)
Financial positions of parent entity at year end		
Current assets	7,992,897	3,878,757
Non-current assets	15,409	435,011
Total assets	8,008,306	4,313,768
Current liabilities	5,178,637	707,390
Non-current liabilities	3,496,077	7,312,292
Total liabilities	8,674,714	8,019,683
Total equity of the parent entity comprising of:		
Share capital	14,836,383	11,760,772
Reserves	10,325,515	5,372,886
Accumulated losses	(25,828,306)	(20,839,573)
Total equity	(666,408)	(3,705,915)

Parent entity contingencies

The parent entity did not have any capital commitments or contingent liabilities at 30 June 2013 (2012: nil).

24. Events subsequent to reporting date

Since 30 June 2013, 1,650,000 share options have been issued to US based directors, employees and consultants for nil consideration. These are exercisable for ordinary shares at $0.11USD per share and have a ten year life.

Subsequent to year end 480,000 vested options lapsed in accordance with the terms of the Cocoon Data Holdings Limited Director & Employee Share Option Plan Rules.

The financial effect of this event has not been included in the financial statements as at 30 June 2013.

In October 2013 the Company received cash funds of $2,402,344 from the ATO for research & development tax concessions relating to the 30 June 2013 financial year. The financial effect of this event has been included in the financial statements as at 30 June 2013 as other income and a receivable (Note 9).

At 27 September the Board accepted the resignation of Peter Janke from the position of CEO and from the Boards of Cocoon Data Holdings Limited and its subsidiaries. Charles Archer was appointed to the position of interim CEO from 27 September 2013.

Other than the matters 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
Director's 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 2013 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 Company 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 include a statement of compliance with International Financial Reporting Standards.

Dated at Sydney this 31st day of October 2013.

Signed in accordance with a resolution of the directors:

Philip King

Philip King
Chairman

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 2013 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), "Going Concern", in the financial report. The conditions disclosed in Note 2(e), including the need to raise additional cash funding through the issue of debt and/or equity securities; and/or the Group converting outstanding convertible notes to equity; and/or the Group maintaining expenditure levels in line with available funding, 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 it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

KPMG
31 October 2013

Adam Twemlow
Partner
Bundall