

**RECOILLESS TECHNOLOGIES INTERNATIONAL CORP. LIMITED**  
XXI Century Pioneer of Recoilless Technologies  
ACN 092 154 857

**Financial Statements**  
**For the Year Ended 30 June 2008**

**Recoilless Technologies International Corp. Limited**

**ACN 092 154 857**

**For the Year Ended 30 June 2008**

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## **Recoilless Technologies International Corp. Limited**

**ACN 092 154 857**

### **Independent Audit Report to the members of Recoilless Technologies International Corp. Limited**

#### **Report on the Financial Report**

We have audited the accompanying financial report of Recoilless Technologies International Corp. Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

#### **Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's Responsibility**

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

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

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

#### **Independence**

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

**Recoilless Technologies International Corp. Limited**

**ACN 092 154 857**

**Independent Audit Report to the members of Recoilless Technologies International Corp. Limited**

**Auditor's Opinion**

In our opinion the financial report of Recoilless Technologies International Corp. Limited is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

**Material Uncertainty Regarding Continuation as a Going Concern**

Without qualifying our opinion, we draw attention to Note 1 (n) in the financial report which indicates that the Company incurred a net loss of \$1,537,841 during the year ended 30 June 2008 and, as of that date, the Company's current liabilities exceeded its current assets by \$1,036,455. These conditions, along with other matters as set forth in Note 1 (n) indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern and 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.

*Whelan & Cook*

Whelan & Cook  
Chartered Accountants

*Malcolm Fielden*

Malcolm Fielden  
Partner

Dated : 9/1/2009

Level 16, 499 St Kilda Road  
Melbourne VIC 3004

**Recoilless Technologies International Corp. Limited**

**ACN 092 154 857**

**Directors' Report**

**30 June 2008**

Your directors present their report on the company for the financial year ended 30 June 2008.

**1. General information**

**Directors**

The names of the directors in office at any time during, or since the end of, the year are:

<b>Names</b>	<b>Particulars</b>
Richard Giza Chairman, Managing Director & Chief Technology Architect	<p>Mr Giza, founder of Recoilless Technologies International Corp. Limited, has responsibility for research and development, technology, architecture and engineering in addition to maintaining Recoilless Technologies International Corp. Limited's vision and goals and overseeing the global operations of the Company. He has had a long interest in military affairs, weapons and weapons technology, leading him to his current research into recoilless technologies.</p> <p>Mr Giza's diverse background and his involvement with both private and professional shooting associations worldwide, gives him the necessary skills and advantages to foster not only his research but face the challenges that Recoilless Technologies International Corp. Limited may encounter and lead the company into a very exciting future and new innovative areas of technological advancement.</p>
Joseph Vella Executive Director & Technology Trustee	<p>Mr Vella is a hands-on entrepreneur with extensive experience in the retail petroleum and sand mining industries and has previously held an interest in an earth-moving and excavating venture. As a founding Director of Recoilless Technologies International Corp. Limited, Mr Vella has worked closely with Mr Giza in the development of models which eventually led to working prototypes incorporating the Recoilless Technology. Mr Vella's primary responsibility within Recoilless Technologies International Corp. Limited has been fundraising, which to date has been very successful. His motivation is a testament to his belief in Recoilless Technologies International Corp. Limited and is a source of his continuous aspiration for the other members of the Company.</p> <p>For the past eighteen years Mr Vella has been a member of the Australian Clay Target Association where he has been involved in committee management and regular weekend competitions.</p>
Adam J Vella Non Executive Director	<p>Mr Vella is a member of the Australian and Olympic Clay Target Shooting Team. His successes include an Olympic Bronze (Athens), Commonwealth Games Gold and Silver (Manchester), Commonwealth Games Gold (Melbourne), and many World titles. He is also the only shooter that has been ranked number one in the world in two disciplines at the same time.</p> <p>Since 1996 Mr Vella has been managing his own plumbing business servicing commercial properties in the petroleum industry in the Melbourne metropolitan area. Between 1996 and 2000, Mr Vella was an Executive Director of McIntyre Target Products Pty. Ltd. and Rio Oceania Pty. Ltd. Both businesses imported and distributed clay targets and ammunition Australia wide. Mr Vella's associations and successes have brought invaluable national and international media attention for Recoilless Technologies International Corp. Limited and have also facilitated the development of relationships with gun manufacturers and suppliers worldwide making him a vital liaison for Recoilless Technologies International Corp. Limited.</p>

**Recoilless Technologies International Corp. Limited**

**ACN 092 154 857**

**Directors' Report**

**30 June 2008**

**1. General information continued**

Geoffrey Morgan  
Executive Director &  
Chief Operations Officer

Mr Morgan has had more than 20 years experience at Senior Management levels within the Victorian Government and has worked closely with Ministers of Parliament in a number of portfolio areas. He has also had more than 10 years experience in the manufacturing industry using high speed, technically advanced, state of the art equipment. Mr Morgan has previously been involved at a project management and contractual level with commercial and building projects funded through the State Education Department. He has also managed both capital and recurrent budgets. Mr Morgan's Senior Management and manufacturing experience will prove valuable to Recoilless Technologies International Corp. Limited as it moves into its next phase of development. Mr Morgan is also a member of the Australian Institute of Company Directors.

Stephen McArthur  
Non Executive Director &  
Vice Chairman

Mr McArthur was a Member of the Parliament of Victoria for 10 years from 1992 to 2002. Between 1992 and 1999 he was a member of various government committees and Chairman of the Conservation and Land Management committee. After 1999 he served as the Shadow Minister for Water Resources, the Shadow Minister for Agriculture and as the Manager of Opposition Business. He has extensive Parliamentary and political experience. He has also served on the boards/councils of various schools, sporting bodies and community organisations.

Prior to entering Parliament Mr McArthur was the owner/manager of family pastoral properties in NSW and Victoria. He is currently the Managing Director of an investment company.

The above named directors have been in office since the start of the financial year to the date of this report except for:

- (i) Stephen McArthur (resigned 5 December 2007)
- (ii) Adam J Vella (resigned 18 January 2008)

**Company Secretary**

The following persons have held the position of company secretary during the financial year:

- (i) Phillip England (resigned 10 October 2007)
- (ii) Geoffrey Morgan

## **Recoilless Technologies International Corp. Limited**

**ACN 092 154 857**

### **Directors' Report**

**30 June 2008**

#### **1. General information continued**

##### **Principal Activities**

The principal activities of Recoilless Technologies International Corp. Limited during the financial year were the further development of the Recoilless Technology with the intention of adapting this technology to any conventional ballistic weapons and other commercial applications.

There have been no significant changes in the nature of Recoilless Technologies International Corp. Limited's principal activities during the financial year.

#### **2. Business review**

##### **Operating Results**

The loss from ordinary activities after providing for income tax amounted to \$ 1,537,841. Included in the total expenses, there are \$493,568 non-cash expenses relating to the Employee Share Option Plan. Recoilless Technologies International Corp. Limited issued share options to selected employees and directors during 2008, and the value of the options need to be expensed over the vesting period.

##### **Review of operations**

Overview of the operations of company during the financial year:

- Primary focus on Research and Development activities to further technology improvement;
- Further technology advancements and demonstrations;
- Further granting of patents and preparations for additional patent applications;
- Further effort on sourcing a suitable Research and Development project specific partner to further develop the technology to Concept Technology Demonstrator stage;
- Receipt of funding from a Research and Development Tax Concession application to an amount of \$241,862;
- Receipt of funding from an Export Marketing and Development Grant application to an amount of \$43,635;
- Negotiations for the establishment of a strategic partnership;
- Negotiations and basic preparations for a stock exchange listing;
- Advanced preparations for establishing additional Recoilless Technologies International Corp. Limited subsidiaries;
- Preliminary preparations and negotiations for the purchase of a metal fabrication company; and
- Preparations and negotiations for the provision of weapons by an Arms Company for concept demonstration.

##### **Further Development**

In the following year, Recoilless Technologies International Corp. Limited will be dedicated to the commercialization process of the Recoilless Technology.

**Recoilless Technologies International Corp. Limited**

**ACN 092 154 857**

**Directors' Report**

**30 June 2008**

**3. Other items**

**Significant Changes in State of Affairs**

No significant changes in the company's state of affairs occurred during the financial year.

**After balance day events**

(i) To facilitate its business in Singapore, Recoilless Technologies International Corp. Limited registered a Singaporean subsidiary, Recoilless Technologies International (Singapore) Pte Ltd on 26 August 2008. No capital has yet been injected.

(ii) Recoilless Technologies International Corp. Limited received \$232,000 cash after year end from investors and a further \$70,000 committed and to be received by 31<sup>st</sup> January 2009. 788,200 ordinary shares were issued in exchange for these investment funds.

(iii) Recoilless Technologies International Corp. Limited issued 416,000 ordinary shares for nil consideration to individuals who assisted the company and elected not to be financially remunerated.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations or the state of affairs of the company in future financial years.

**Auditors Independence Declaration**

The lead auditors independence declaration for the year ended 30 June 2008 has been received and can be found on page 38 of the financial report.

**Meetings of Directors**

During the financial year, 4 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	<b>Directors' Meetings</b>	
	<b>Eligible to attend</b>	<b>Number attended</b>
Richard Giza	4	4
Stephen McArthur	1	1
Geoffrey Morgan	4	4
Adam Vella	2	-
Joseph Vella	4	4

Recoilless Technologies International Corp. Limited

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Directors' Report

30 June 2008

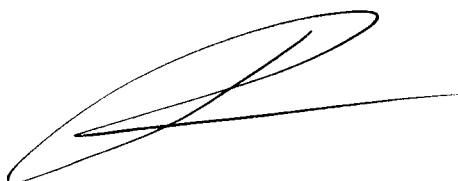
Options issued as part of remuneration for the year ended 30 June 2008

Options are issued to the directors and executives as part of their remuneration. The options are issued based on key performance criteria, and are issued to the majority of directors and employees of Recoilless Technologies International Corp. Limited to increase goal congruence between employees, directors and shareholders.

Options Granted As Compensation

	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date	Terms & Conditions for Each Grant		
					Exercise Price	First Exercise Date	Last Exercise Date
<b>Directors</b>							
Stephen McArthur	-	50,000	25 May 2007	-	\$0.01	1 Sept 2012	1 Sept 2017
Geoffrey Morgan	-	153,608	25 May 2007	-	\$0.01	1 Sept 2012	1 Sept 2017
Adam Vella	-	201,978	25 May 2007	-	\$0.01	1 Sept 2012	1 Sept 2017
	-	<u>405,586</u>					

Signed in accordance with a resolution of the Board of Directors:



Richard Giza

Director

Dated this 9th day of January 2009

**Recoilless Technologies International Corp. Limited**

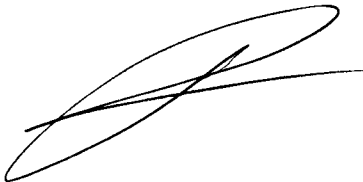
**ACN 092 154 857**

**Directors' Declaration**

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 9 to 37, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the Company;
2. The Chief Executive Officer and Chief Financial Officer have each declared that:
  - (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (c) the financial statements and notes for the financial year give a true and fair view.
3. In the directors opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



**Richard Giza**

Director

Dated this 9th day of January 2009

**Recoilless Technologies International Corp. Limited**

**ACN 092 154 857**

**Income Statement**

**For the Year Ended 30 June 2008**

		<b>2008</b>	<b>2007</b>
	<b>Note</b>	<b>\$</b>	<b>\$</b>
Other income	2	<b>323,981</b>	371,031
Occupancy expenses		<b>(70,176)</b>	(139,460)
Administrative expenses		<b>(1,472,690)</b>	(5,696,924)
Finance costs		<b>(73,057)</b>	(20,211)
Other expenses		<b>(245,899)</b>	(403,299)
<b>Profit before income tax</b>		<b>(1,537,841)</b>	(5,888,863)
Income tax expense	5	-	-
<b>Profit attributable to members</b>		<b>(1,537,841)</b>	(5,888,863)

Earnings Per Share:

**Overall operations:**

Basic earnings per share (cents per share)	17	<b>(2.89)</b>	(11.27)
Diluted earnings per share (cents per share)	17	<b>(2.89)</b>	(11.27)

Recoilless Technologies International Corp. Limited

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Balance Sheet

30 June 2008

	Note	2008 \$	2007 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	422	22,329
Tax receivable		87,793	138,381
Other current assets	7	15,256	22,624
<b>Total current assets</b>		<b>103,471</b>	<b>183,334</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	440,193	594,658
Intangible assets	9	205,558	209,046
<b>Total non-current assets</b>		<b>645,751</b>	<b>803,704</b>
<b>TOTAL ASSETS</b>		<b>749,222</b>	<b>987,038</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	10	354,175	276,397
Financial liabilities	11	513,958	22,712
Short-term provisions	13	96,984	102,144
Other current liabilities	14	174,809	117,944
<b>Total current liabilities</b>		<b>1,139,926</b>	<b>519,197</b>
<b>Non-current liabilities</b>			
Financial liabilities	11	37,049	60,453
<b>Total non-current liabilities</b>		<b>37,049</b>	<b>60,453</b>
<b>TOTAL LIABILITIES</b>		<b>1,176,975</b>	<b>579,650</b>
<b>NET ASSETS</b>		<b>(427,753)</b>	<b>407,388</b>
<b>EQUITY</b>			
Issued capital	15	8,856,060	8,168,330
Reserves		4,766,368	4,751,399
Accumulated losses		(14,050,181)	(12,512,341)
<b>TOTAL EQUITY</b>		<b>(427,753)</b>	<b>407,388</b>

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Statement of Changes in Equity

For the Year Ended 30 June 2008

2008

	Ordinary Shares	Accumulated Losses	Equity-Settled Employee Benefits Reserve	Other Equity-Settled Share-Based Payment Reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2007	8,168,330	(12,512,340)	4,268,250	483,149	407,389
Shares issued during the year	342,000	-	-	-	342,000
Loss for the year	-	(1,537,841)	-	-	(1,537,841)
Recognition of share-based payments	-	-	493,568	24,464	518,032
Cancellation of share-based payments	-	-	-	(157,333)	(157,333)
Transfers to and from reserves					
- other equity-settled share-based payment reserve	345,730	-	-	(345,730)	-
<b>Sub-total</b>	<b>687,730</b>	<b>(1,537,841)</b>	<b>493,568</b>	<b>(478,599)</b>	<b>(835,142)</b>
<b>Balance at 30 June 2008</b>	<b>8,856,060</b>	<b>(14,050,181)</b>	<b>4,761,818</b>	<b>4,550</b>	<b>(427,753)</b>

Note

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Statement of Changes in Equity

For the Year Ended 30 June 2008

2007

	Ordinary Shares	Accumulated Losses	Equity-Settled Employee Benefits Reserve	Other Equity-Settled Share-Based Payment Reserve	Total
Note	\$	\$	\$	\$	\$
Balance at 1 July 2006	6,091,488	(6,623,478)	-	437,500	(94,490)
Loss for the year	-	(5,888,863)	-	-	(5,888,863)
Shares issued during the year	1,914,010	-	-	-	1,914,010
Recognition of share-based payments	-	-	4,268,250	208,481	4,476,731
Transfers to and from reserves - other equity-settled share-based payment reserve	162,832	-	-	(162,832)	-
<b>Sub-total</b>	<b>2,076,842</b>	<b>(5,888,863)</b>	<b>4,268,250</b>	<b>45,649</b>	<b>501,878</b>
<b>Balance at 30 June 2007</b>	<b>8,168,330</b>	<b>(12,512,341)</b>	<b>4,268,250</b>	<b>483,149</b>	<b>407,388</b>

**Recoilless Technologies International Corp. Limited**

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**Cash Flow Statement**

For the Year Ended 30 June 2008

	2008	2007
Note	\$	\$
<b>Cash from operating activities:</b>		
Government Grants	235,012	271,182
Payments to suppliers and employees	(546,459)	(2,157,295)
Other receipts	-	21,747
	<u>(311,447)</u>	<u>(1,864,366)</u>
<b>Net cash provided by (used in) operating activities</b>		
<b>Cash flows from investing activities:</b>		
Interest received	-	7,532
Acquisition of property, plant and equipment	(17,921)	(38,542)
Payment for intangible assets	(13,251)	-
	<u>(31,172)</u>	<u>(31,010)</u>
<b>Net cash provided by (used in) investing activities</b>		
<b>Cash flows from financing activities:</b>		
Proceeds from issue of shares	342,000	1,841,927
Repayment of borrowings	-	(197,363)
Repayment of finance lease liabilities	(21,288)	(13,328)
	<u>320,712</u>	<u>1,631,236</u>
<b>Net cash provided by (used in) financing activities</b>		
<b>Other activities:</b>		
<b>Net increase (decreases) in cash held</b>	(21,907)	(264,140)
Cash at beginning of financial year	22,329	286,469
<b>Cash at end of financial year</b>	6 <u>422</u>	<u>22,329</u>

**Recoilless Technologies International Corp. Limited**

**ACN 092 154 857**

**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**1 Accounting policies**

**(a) General information**

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

The financial report covers the Company of Recoilless Technologies International Corp. Limited. Recoilless Technologies International Corp. Limited is a public unlisted company, incorporated and domiciled in Australia.

The financial report of Recoilless Technologies International Corp. Limited complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

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

**(b) Basis of preparation**

**(i) Reporting Basis and Conventions**

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

**(c) Comparatives**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**(d) Property, plant and equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

**(i) Plant and equipment**

Plant and equipment is measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

**(ii) Depreciation**

The depreciable amount of all fixed assets and capitalised leased assets, is depreciated on a straight-line basis over their useful lives to the Company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

**1 Accounting policies continued**

**(d) Property, plant and equipment continued**

The depreciation rates used for each class of depreciable assets are:

<b>Class of Fixed Asset</b>	
Plant and Equipment	8% - 23%
Furniture, Fixtures and Fittings	11% - 20%
Motor Vehicles	25%
Leasehold improvements	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

**(e) Financial Instruments**

**(i) Recognition and Initial Measurement**

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to contractual provisions of the instruments. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

**(iii) Financial liabilities**

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

**(iv) Impairment**

At each reporting date, the Company assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

**(f) Intangible assets**

**(i) Patents and trademarks**

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost and are not amortised.

**Recoilless Technologies International Corp. Limited**

**ACN 092 154 857**

**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**1 Accounting policies continued**

**(f) Intangible assets continued**

**(ii) Research and development**

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

**(g) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

**(h) Employee benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at present value of the estimated future cash outflows to be made for those benefits.

**(i) Equity-settled compensation**

Recoilless Technologies International Corp. Limited operates a number of share-based compensation plans. These include both a share option arrangement and an employee share scheme. The bonus element over the exercise price of the employee services rendered in exchange for the grant of shares and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

**(i) Provisions**

Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

**(j) Borrowings**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

**Recoilless Technologies International Corp. Limited**

**ACN 092 154 857**

**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**1 Accounting policies continued**

**(k) Income taxes**

The charge for current income tax expense is based on the adjusted profit for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

**(l) Revenue**

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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

**(m) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**(n) Going Concern**

The Company is involved in significant development activity and as such expects to be cash absorbing until its patents are commercialised.

As at 30 June 2008 the Company recorded losses from continuing operations before taxation of \$1,537,841 (2007: \$5,888,863), incurred negative cash flows from operations of \$307,747 (2007: \$1,864,366) in the financial year, and has a deficiency of current assets over current liabilities at 30 June 2008 of \$1,036,455 (2007: \$335,863).

**Recoilless Technologies International Corp. Limited**

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**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**1 Accounting policies continued**

**(n) Going Concern continued**

Whilst there are uncertainties as to the exact timing and form of additional fundraising necessary to fund the current level of activities of the Company for at least the next 12 months, the directors have a reasonable expectation that they can raise additional cash resources during the period for this purpose. These financial statements have therefore been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The continued viability of the Company and its ability to meet debts as and when they fall due is dependent on it being successful in the following factors:

- (i) generating positive cash flows through the generation of trading revenues in ensuing periods to enable creditor obligations to be met;
- (ii) the ongoing support of the Company's financiers; and
- (iii) being successful in a planned capital raising to fund further product development, marketing and to provide additional working capital.

The directors believe the going concern basis of preparation to be appropriate given the following reasons:

- (i) during its lifetime, the Company has been able to attract funds to support its research and development;
- (ii) institutional investors will come in;
- (iii) directors are willing to financially support the Company's operations as before; and
- (iv) discussion with a weapons manufacturer for a joint research and development project is ongoing, and directors expect a positive outcome will be achieved.

Having carefully assessed the uncertainties relating to the likelihood of securing additional funding and the Company's ability to effectively manage their expenditures and cash flows from operations, the directors believe that the Company will continue to operate as a going concern for the foreseeable future and therefore it is appropriate to prepare the financial statements on a going concern basis.

In the event that the Company is unable to raise sufficient funds as set out above, there is significant uncertainty whether the Company could continue as a going concern. If the Company is unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

No adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the Company not continue as a going concern.

**(o) Impairment of Assets**

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

**Recoilless Technologies International Corp. Limited**

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**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**1 Accounting policies continued**

**(p) Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to the Company are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the Company will obtain ownership of the asset or over the term of the lease.

**(q) Government Grants**

Government grants are assistance by the government in the form of transfers of resources to the Company in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Company other than the requirement to operate in certain regions or industry sectors. Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire long-term assets are recognised as deferred income in the balance sheet and recognised as income on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised as income of the period in which it becomes receivable.

**(r) Critical accounting estimates and judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and based on current trends and economic data, obtained both externally and within the company.

**(s) Foreign currency translation**

**(i) Monetary assets and liabilities at current rates**

Foreign currency transactions are translated at the rates of exchange in effect at the dates of the transaction. Resulting foreign currency denominated monetary assets and liabilities are translated at the rates of exchange in effect at the balance sheet date. Gains and losses on foreign exchange are recognised in the income statement.

**Recoilless Technologies International Corp. Limited**

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**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**1 Accounting policies continued**

**(t) Share-based payments**

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by an independent valuer. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 21.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

**2 Revenue**

	<b>Note</b>	<b>2008</b>	<b>2007</b>
		<b>\$</b>	<b>\$</b>
Operating activities			
- interest received		1,374	7,533
- government grants		285,497	363,498
- other revenue		37,110	-
Total Revenue		<u>323,981</u>	<u>371,031</u>

**3 Loss for the Year**

**Loss for the year has been arrived at after charging/(crediting) the following gains and losses:**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Depreciation of property, plant and equipment	83,839	38,369
Amortisation of intangible assets	16,740	16,740
Research and development costs immediately expensed	-	921,958
Operating lease rental expenses	21,323	42,030
Net foreign exchange gains	(1,374)	(6,477)
<b>Employee benefit expense</b>		
Defined contributions plan	48,826	87,215
Equity-settled share-based payments	493,568	4,268,250
Other employee benefits	84,878	888,336

**Recoilless Technologies International Corp. Limited**

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**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**4 Auditors' Remuneration**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Remuneration of the auditor of the company for:		
- Auditing or reviewing the financial report	<b>60,400</b>	53,502
- Taxation services	<b>3,300</b>	2,860

**5 Income tax expense**

**(a) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2007: 30%)	<b>(461,352)</b>	(1,766,659)
Add:		
Tax effect of:		
- non-deductible expenses	<b>5,327</b>	-
- share options expensed during year	<b>148,070</b>	1,280,475
- temporary differences	<b>22,515</b>	-
Benefit of current loss not recognised	<b>285,440</b>	486,184
Total	<b>-</b>	-
Income tax expense	<b>-</b>	-

Deferred tax assets from tax losses - revenue of \$1,845,399 (2007: \$2,158,227) have not been brought to account as assets.

**6 Cash and cash equivalents**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Cash on hand	-	460
Cash at bank	<b>422</b>	21,868
	<b>422</b>	22,328

**Recoilless Technologies International Corp. Limited**

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**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**7 Other Assets**

	2008	2007
	\$	\$
CURRENT		
Deposit	330	-
Loan to directors	5,980	5,000
Prepayments	8,946	17,624
	<u>15,256</u>	<u>22,624</u>

**8 Property, plant and equipment**

	2008	2007
	\$	\$
Plant and Equipment		
At cost	410,134	479,186
Less accumulated depreciation	<u>(109,248)</u>	<u>(66,101)</u>
Total capital works in progress	<u>300,886</u>	413,085
Furniture, fixture and fittings		
At cost	61,334	63,405
Less accumulated depreciation	<u>(26,941)</u>	<u>(18,086)</u>
Total furniture, fixture and fittings	<u>34,393</u>	45,319
Motor vehicles		
At cost	71,400	71,400
Less accumulated depreciation	<u>(23,704)</u>	<u>(7,227)</u>
Total motor vehicles	<u>47,696</u>	64,173
Leasehold improvements		
At cost	76,716	76,236
Less accumulated depreciation	<u>(19,498)</u>	<u>(4,155)</u>
Total leasehold improvements	<u>57,218</u>	72,081
<b>Total property, plant and equipment</b>	<u><b>440,193</b></u>	<u><b>594,658</b></u>

**(a) Movements in Carrying Amounts**

	Plant and Equipment	Furniture, Fixtures and Fittings	Motor Vehicles	Leasehold Improvements	Total
	\$	\$	\$	\$	\$
<b>Current Year</b>					
Balance at the beginning of year	413,085	45,319	64,173	72,081	594,658
Additions	25,222	-	-	480	25,702
Disposals	(94,257)	(2,071)	-	-	(96,328)
Depreciation expense	(43,164)	(8,855)	(16,477)	(15,343)	(83,839)
Carrying amount at the end of year	<u><b>300,886</b></u>	<u><b>34,393</b></u>	<u><b>47,696</b></u>	<u><b>57,218</b></u>	<u><b>440,193</b></u>

**Recoilless Technologies International Corp. Limited**

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**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**8 Property plant and equipment continued**

**(a) Movements in Carrying Amounts continued**

	Plant and Equipment	Furniture, Fixtures and Fittings	Motor Vehicles	Leasehold Improvements	Total
	\$	\$	\$	\$	\$
<b>Prior Year</b>					
Balance at the beginning of year	64,923	25,321	2,601	-	92,845
Additions	374,804	26,537	66,900	76,236	544,477
Disposals	(4,294)	-	-	-	(4,294)
Depreciation expense	(22,348)	(6,539)	(5,328)	(4,155)	(38,370)
Carrying amount at the end of year	<b>413,085</b>	<b>45,319</b>	<b>64,173</b>	<b>72,081</b>	<b>594,658</b>

**9 Intangible assets**

	2008	2007
	\$	\$
<b>Patents and trademarks</b>		
Cost	191,863	175,687
Accumulated amortisation and impairment	(2,925)	-
Net carrying value	<b>188,938</b>	<b>175,687</b>
<b>Tradewise Credits</b>		
Cost	1,050,000	1,050,000
Accumulated amortisation and impairment	(1,050,000)	(1,050,000)
Computer software		
Cost	50,220	50,220
Accumulated amortisation and impairment	(33,600)	(16,860)
Net carrying value	<b>16,620</b>	<b>33,360</b>
Total Intangibles	<b>205,558</b>	<b>209,047</b>

**Reconciliation Detailed Table**

	Patents and trademarks	Computer software	Total
	\$	\$	\$
<b>Year ended 30 June 2007</b>			
Opening balance	175,687	50,100	225,787
Amortisation	-	(16,740)	(16,740)
<b>Balance at 30 June 2007</b>	<b>175,687</b>	<b>33,360</b>	<b>209,047</b>
<b>Year ended 30 June 2008</b>			
Opening balance	175,687	33,360	209,047
Additions	16,176	-	16,176
Amortisation	(2,925)	(16,740)	(19,665)
<b>Balance at 30 June 2008</b>	<b>\$188,938</b>	<b>\$16,620</b>	<b>\$205,558</b>

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**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**10 Trade and other payables**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
CURRENT		
Secured Liabilities		
Trade payables	<b>296,396</b>	274,081
Other payables	<b>57,779</b>	2,316
	<b>354,175</b>	<b>276,397</b>

**11 Borrowings**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
CURRENT		
Unsecured liabilities		
Loans from other related parties	<b>493,923</b>	4,758
	<b>493,923</b>	<b>4,758</b>
Secured liabilities		
Finance lease obligation	<b>20,035</b>	17,954
	<b>20,035</b>	<b>17,954</b>
	<b>513,958</b>	<b>22,712</b>

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
NON-CURRENT		
Secured liabilities		
Finance lease obligation	<b>37,049</b>	60,453
	<b>37,049</b>	<b>60,453</b>

**(a) Total current and non-current secured liabilities**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Finance lease obligations	<b>57,084</b>	<b>78,407</b>

**Recoilless Technologies International Corp. Limited**

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**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**12 Capital and Leasing Commitments**

**(a) Finance Lease Commitments**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Payable - minimum lease payments		
- no later than 12 months	26,862	26,813
- between 12 months and 5 years	40,549	70,780
Minimum lease payments	<u>67,411</u>	<u>97,593</u>
Less future finance changes	(10,327)	(19,186)
Present value of minimum lease payments	<u>57,084</u>	<u>78,407</u>

**13 Provisions**

	<b>Employee entitlements</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
Opening balance at 1 July 2007	102,144	102,144
Additional provisions	156,530	156,530
Amounts used	(161,690)	(161,690)
Balance at 30 June 2008	<u>96,984</u>	<u>96,984</u>

**14 Other Liabilities**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
CURRENT		
Accruals	<u>173,599</u>	117,944
Total	<u>173,599</u>	<u>117,944</u>

**15 Issued Capital**

**(a) Summary Table**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
54,516,870 (2007: 53,419,130) Ordinary	<u>8,856,060</u>	8,168,330
26,000,000 (2007: 26,000,000) Preference	-	-
Total	<u>8,856,060</u>	<u>8,168,330</u>

The company has authorised share capital amounting to 70,000,000 of which 15,483,130 remains unissued.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Preference shares have no entitlements to dividends or capital upon liquidation. It carries one vote per share.

**Recoilless Technologies International Corp. Limited**

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**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**16 Reserves**

**(a) Equity-settled employee benefits reserve**

The equity-settled employee benefits reserve arises on the grant of share options to selected employees under the Employee Share Option Plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised.

In accordance with the provisions of the employee share option plan, as at 30 June 2008, selected employees have options over 7,776,617 of the Company's ordinary shares, of which 5,602,139 vested and the remaining 2,174,478 are unvested.

The Options may be exercised at any time after thirty six (36) months from issue and up until expiry date, or upon receiving a written notice from the Company indicating that the Company has determined to apply to the Australian Securities Exchange ("ASX") to be listed on the ASX and stating that the Options must be exercised by a prescribed date failing which any Options which are not exercised shall lapse, whichever comes first.

The Options expiry date is five years from the date the Options were issued. Employees may be required to exercise their Options early should they receive a notice from the Company indicating that the Company has determined to apply to the ASX as disclosed above.

Share options granted under the Employee Share Option Plan carry no rights to dividends and no voting rights. Further details of the Employee Share Option Plan are contained in note 21 to the financial statements

**(b) Other equity-settled share-based payment reserve**

The other equity-settled share-based payment reserve arises on the share-based transactions with two suppliers, Sutcliffe Pty Ltd and Bendtech Pty Ltd. Both suppliers have provided the right to use their office facilities to Recoilless Technologies International Corp. Limited and provided selected fixed assets to Recoilless Technologies International Corp. Limited for conducting the research and development of Recoilless Technologies International Corp. Limited's recoilless technologies. In return, Recoilless Technologies International Corp. Limited will issue ordinary shares to the two companies. The transactions are based on the commercial rate for lease transactions.

**17 Earnings per Share**

**(a) Detailed table**

Basic earnings per share

The calculation of basic earnings per share at 30 June 2008 was based on the net loss attributable to ordinary shareholders of \$ 1,537,841 (2007: \$ 5,888,862) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 53,153,019.00 (2007: 52,253,479.00), calculated as follows:

Net profit attributable to ordinary shareholders:

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Net loss for the year	(1,537,841)	(5,888,862)
<b>Net profit attributable to ordinary shareholders</b>	<b>(1,537,841)</b>	<b>(5,888,862)</b>

**Recoilless Technologies International Corp. Limited**

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**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**17 Earnings Per Share Continued**

**(a) Detailed table continued**

Weighted average number of ordinary shares:

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Issued ordinary shares	53,153,019	52,253,479
<b>Weighted average number of ordinary shares</b>	<b>53,153,019</b>	<b>52,253,479</b>

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2008 was based on the net loss attributable to ordinary shareholders of \$ 1,537,841 (2007: \$ 5,888,862) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 53,153,019 (2007: 52,253,479), calculated as follows:

Net profit attributable to ordinary shareholders (diluted):

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Net profit attributable to ordinary shareholders	(1,537,841)	(5,888,862)
<b>Net profit attributable to ordinary shareholders (diluted)</b>	<b>(1,537,841)</b>	<b>(5,888,862)</b>

Weighted average number of ordinary shares (diluted):

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Weighted average number of ordinary shares	53,153,019	52,253,479
Equity-based lease payment	-	-
<b>Weighted average number of ordinary shares (diluted)</b>	<b>53,153,019</b>	<b>52,253,479</b>

**18 Key Management Personnel Compensation**

**(a) Key Management Personnel**

Names and positions held of key management personnel in office at any time during the financial year are:

<b>Key Management Person</b>	<b>Position</b>
Richard Giza	Chairman, Managing Director and Chief Technology Architect
Joseph Vella	Executive Director and Technology Trustee
Adam J Vella	Non Executive Director
Geoffrey Morgan	Executive Director, Chief Operations Officer and Company Secretary
Stephen McArthur	Non Executive Director and Vice Chairman
Phillip England	Company Secretary and Chief Financial Officer

The above named directors held office during and since the end of the financial year except for:

- Stephen McArthur (resigned 5 December 2007)
- Adam J Vella (resigned 18 January 2008)

**Company Secretary**

- Phillip England (resigned 10 October 2007).

Recoilless Technologies International Corp. Limited

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Notes to the Financial Statements

For the Year Ended 30 June 2008

18 Key Management Personnel Compensation continued

(b) Key Management Personnel Compensation

2008	Short-term benefits			Non-cash Benefits	Post employment benefits	Other long-term benefits	Share-based payments		Total	Performance related
	Cash, salary & commissions	Cash profit share	Cash Bonus		Superannuation	Options	Equity	Options		%
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Richard Giza	55,384	-	-	-	4,984	-	-	-	60,368	-
Joseph Vella	68,653	-	-	-	6,178	-	-	-	74,831	-
Adam J Vella	1,375	-	-	-	-	-	-	171,681	173,056	-
Geoffrey Morgan	66,634	-	-	-	5,997	-	-	130,567	203,198	-
Stephen McArthur	19,903	-	-	-	1,791	-	-	42,500	64,194	-
Phillip England	23,201	-	-	-	1,716	-	-	-	24,917	-
	<b>235,150</b>	-	-	-	<b>20,666</b>	-	-	<b>344,748</b>	<b>600,564</b>	-

\* Options are exercisable at \$0.01 per option and in line with conditions of the Employee Share Option Plan.

Recoilless Technologies International Corp. Limited

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Notes to the Financial Statements

For the Year Ended 30 June 2008

18 Key Management Personnel Compensation continued

(b) Key Management Personnel Compensation continued

2007	Short-term benefits			Non-cash Benefits	Post employment benefits	Equity	Share-based payments		Total	Performance Related
	Cash, salary & commissions	Cash profit share	Cash Bonus		Superannuation	Options	Equity	Options		%
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Richard Giza	69,038	-	-	-	6,213	-	-	-	75,251	-
Joseph Vella	70,000	-	-	-	6,300	-	-	-	76,300	-
Mark Darras	32,259	-	-	-	2,927	-	-	368,823	404,009	-
John W Murray	67,363	-	-	-	2,442	-	-	522,726	592,531	-
Adam J Vella	84,194	-	-	-	-	-	-	487,194	571,388	-
Peter Dunn	71,168	-	-	-	6,405	-	-	280,942	358,515	-
Les Targ	20,658	-	-	-	1,859	-	-	170,000	192,517	-
Douglas Kelley	22,301	-	-	-	2,007	-	-	-	24,308	-
Stephen Ayling	25,822	-	-	-	2,324	-	-	374,963	403,109	-
Geoffrey Morgan	10,394	-	-	-	935	-	-	136,133	147,462	-
Stephen McArthur	8,654	-	-	-	779	-	-	118,288	127,721	-
Horace Lim	32,087	-	-	-	2,888	-	-	493,000	527,975	-
Getha Somasundaram	27,467	-	-	-	2,472	-	-	236,963	266,902	-
Phillip England	4,615	-	-	-	415	-	-	68,066	73,096	-
Peter Wolff	104,013	-	-	-	9,361	-	-	136,945	250,319	-
<b>Total</b>	<b>650,033</b>	-	-	-	<b>47,327</b>	-	-	<b>3,394,043</b>	<b>4,091,403</b>	-

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Notes to the Financial Statements

For the Year Ended 30 June 2008

18 Key Management Personnel Compensation continued

(c) Options and Rights Holdings

Number of Options Held by Key Management Personnel

	Balance 01/07/2007	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30/06/2008	Total Vested	Total Exercisable	Total Unexercisable
Adam J Vella	-	201,978	-	-	201,978	-	-	201,978
Geoffrey Morgan	136,133	153,608	-	-	289,741	-	-	289,741
Stephen McArthur	118,288	50,000	-	-	168,288	-	-	168,288
<b>Total</b>	<b>254,421</b>	<b>405,586</b>	-	-	<b>660,007</b>	-	-	<b>660,007</b>

All share options issued to key management personnel were made in accordance with the provisions of the Employee Share Option Plan.

During the year, nil options (2007: nil) were exercised by key management personnel. Further details of the Employee Share Option Plan and of share options granted during the 2008 financial year are contained in notes 21 to the financial statements.

**Recoilless Technologies International Corp. Limited**

**ACN 092 154 857**

**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**18 Key Management Personnel Compensation continued**

**(d) Shareholdings**

Number of Shares held by Specified Directors and Companies Affiliated with Directors

	Balance 01/07/2007	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/2008
Fully paid ordinary shares of Recoilless Technologies Corp. Limited					
Richard Giza	1,745,077	-	-	-	1,745,077
Joseph Vella (i)	1,826,078	-	-	(75,000)	1,751,078
Adam Vella	199,672	-	-	-	199,672
Stephen McArthur	65,625	-	-	-	65,625
Geoffrey Morgan	70,350	-	-	40,000	110,350
Giza Global Group Pty Ltd (ii)	26,000,000	-	-	(23,000,000)	3,000,000
Universal Pressure Vessles Pty Ltd (iii)	-	-	-	3,000,000	3,000,000
Advanced Propulsion Systems Pty Ltd (iv)	-	-	-	3,000,000	3,000,000
Advanced Safeguard Technologies Pty Ltd (v)	-	-	-	17,000,000	17,000,000
Velagiza Superannuation Fund	-	-	-	51,000	51,000
	<u>29,906,802</u>	<u>-</u>	<u>-</u>	<u>16,000</u>	<u>29,922,802</u>
Fully paid preference shares of Recoilless Technologies International Corp. Limited	-	-	-	-	-
Giza Global Group Pty Ltd	26,000,000	-	-	(23,000,000)	3,000,000
Universal Pressure Vessles Pty Ltd (iii)	-	-	-	3,000,000	3,000,000
Advanced Propulsion Systems Pty Ltd (iv)	-	-	-	3,000,000	3,000,000
Advanced Safeguard Technologies Pty Ltd (v)	-	-	-	17,000,000	17,000,000
	<u>26,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,000,000</u>

\* Net change other refers to shares purchased during the financial year, except:

(i) The net change in the shareholdings of Joseph Vella represents the transfer of shares from him to other shareholders.

(ii) Richard Giza and Joseph Vella are exclusive shareholders of Giza Global Group Pty Ltd. At 30 June 2008, Giza Global Group Pty Ltd possesses 3,000,000 ordinary fully paid shares in Recoilless Technologies International Corp. Limited and 3,000,000 preference shares. The preference shares have no entitlement to dividends or capital upon liquidation. Therefore no profits can be distributed to the holders of preference shares. The only right attached to the preference shares is one voting right per preference share. The net change in the shareholdings of Giza Global Group Pty Ltd represents the transfer of ordinary and preference shares to Universal Pressure Vessels Pty Ltd, Advanced Propulsion Systems Pty Ltd and Advanced Safeguard Technologies Pty Ltd.

**Recoilless Technologies International Corp. Limited**

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**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**18 Key Management Personnel Compensation continued**

**(d) Shareholdings continued**

(iii) Richard Giza and Joseph Vella are exclusive shareholders of Universal Pressure Vessels Pty Ltd. At 30 June 2008, Universal Pressure Vessels Pty Ltd possess 3,000,000 ordinary fully paid shares in Recoilless Technologies International Corp. Limited and 3,000,000 preference shares. The preference shares have no entitlements to dividends or capital upon liquidation. Therefore no profits can be distributed to the holders of the preference shares.

(iv) Richard Giza and Joseph Vella are exclusive shareholders of Advanced Propulsion Systems Pty Ptd. At 30 June 2008, Advanced Propulsion Systems Pty Ltd possess 3,000,000 ordinary fully paid shares in Recoilless Technologies International Corp. Limited and 3,000,000 preference shares. The preference shares have no entitlements to dividends or capital upon liquidation. Therefore no profits can be distributed to the holders of the preference shares.

(v) Richard Giza and Joseph Vella are exclusive shareholders of Advanced Safeguard Technologies Pty Ltd. At 30 June 2008 Advanced Safeguard Technologies Pty Ltd possess 17,000,000 ordinary fully paid shares in Recoilless Technologies International Corp. Limited and 17,000,000 preference shares. The preference shares have no entitlements to dividends or capital upon liquidation. Therefore no profits can be distributed to the holders of the preference shares.

**19 Cash Flow Information**

**(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Net income/loss for the period	(1,537,840)	(5,888,863)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit		
Amortisation	16,740	16,740
Depreciation	76,042	38,368
Foreign exchange (gain)/loss	(953)	(6,477)
Equity-settled share-based payment	459,369	4,247,413
Interest income	(1,374)	(7,532)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and term receivables	61,656	(70,568)
Increase/(decrease) in trade payables and accruals	620,073	(74,111)
Increase/(decrease) in provisions	(5,160)	(119,336)
	<u>(311,447)</u>	<u>(1,864,366)</u>

## 20 Financial Instruments

## (a) Financial Risk Management Objectives

The Corporate Treasury functions are centrally managed by the board of directors. Recoilless Technologies International Corp. Limited does not enter into or trade financial instruments for speculative purposes.

## (b) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

## Maturity profile of financial instruments

The maturity profile of financial assets and financial liabilities held by the Company are detailed as follows:

## (b) Interest Rate Risk

2008	Weighted Average Effective Interest Rate %	Fixed Interest Rate \$	Non-interest bearing \$	Total \$
<b>Financial Assets:</b>				
Cash and cash equivalents	-	-	4,122	4,122
Receivables	-	-	94,103	94,103
<b>Total Financial Assets</b>		-	<b>98,225</b>	<b>98,225</b>
<b>Financial Liabilities:</b>				
Loan - Unsecured	13.5	493,923	-	493,923
Trade and sundry payables	-	-	528,984	528,984
Employee Benefits	-	-	96,984	96,984
Lease liabilities	7	57,084	-	57,084
<b>Total Financial Liabilities</b>		<b>551,007</b>	<b>625,968</b>	<b>1,176,975</b>
<b>2007</b>				
2007	Weighted Average Effective Interest Rate %	Fixed Interest Rate \$	Non-interest bearing \$	Total \$
<b>Financial Assets:</b>				
Cash and cash equivalents	-	-	22,329	22,329
Receivables	-	-	138,381	138,381
<b>Total Financial Assets</b>		-	<b>160,710</b>	<b>160,710</b>
<b>Financial Liabilities:</b>				
Loan - Unsecured	13.5	4,758	-	4,758
Trade and sundry payables	-	-	394,341	394,341
Employee Benefits	-	78,407	-	78,407
Lease liabilities	7	-	102,144	102,144
<b>Total Financial Liabilities</b>		<b>83,165</b>	<b>496,485</b>	<b>579,650</b>

**Recoilless Technologies International Corp. Limited**

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**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**21 Share-based payments**

**Employee share option plan**

The following share-based payment arrangements existed at 30 June 2008:

The Company has an ownership-based compensation scheme for selected employees of the Company. In accordance with the provisions of the plan, as approved by shareholders at an Extraordinary General Meeting in June 2005, selected employees may be granted options to purchase parcels of ordinary shares at an exercise price of \$0.01 per ordinary share.

Each employee share option converts into one ordinary share of Recoilless Technologies International Corp. Limited. on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time after thirty six (36) months from issue to the date of their expiry.

The expiry date is set out in the table below. Employees may be required to exercise their Options early should they receive a notice from Recoilless Technologies International Corp. Ltd. indicating that the Company has determined to apply to be listed on the ASX.

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

<b>Options series</b>	<b>Number</b>	<b>Grant date</b>	<b>Expiry date</b>	<b>Exercise price \$</b>	<b>Fair value at grant date \$</b>
Former Series Options *	3,514,446	25 May 2007	25 May 2012	\$0.01	\$0.85
Current Series Options **	1,310,984	25 May 2007	25 May 2012	\$0.01	\$0.85
Future Series Options ***	3,001,994	25 May 2007	1 September 2012 to 1 September 2017	\$0.01	\$0.85

(\*) Former Series Option are options granted to selected former employees of the Company.

The Former Series Options vested on the date they were issued.

(\*\*) Current Series Option are options granted to selected existing employees of the Company.

The Current Series Options vested on the date they were issued.

(\*\*\*) Future Series Option are options granted to selected existing employees of the Company.

They are vested subject to the employee remaining employed with the Company and satisfying the performance hurdles stipulated in their employment contract.

The fair value of the share options granted during the financial year is \$0.86 (2007: \$0.86). Options were priced using the Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Expected volatility is based on a comparable listed company "Metal Storm Limited" annualised volatility over the past 4 years.

## Recoilless Technologies International Corp. Limited

ACN 092 154 857

### Notes to the Financial Statements

For the Year Ended 30 June 2008

#### 21 Share-based payments continued

Inputs into the model	
Grant date value of ordinary shares	\$0.85
Exercise price	\$0.01
Expected volatility	54%
Option life	5 years
Dividend yield *	Nil
Risk-free interest rate	5.67%

The Company has no intention to pay a dividend prior to its proposed listing on ASX. It is hence assumed no dividend will be paid during the life of the Options.

The following reconciles the outstanding share options granted under the Employee Share Option Plan at the beginning and end of the financial year:

	2008		2007	
	Number of Options	Weighted Average Exercised Price	Number of Options	Weighted Average Exercised Price
	\$	\$	\$	\$
Outstanding at the beginning of the year	7,827,424	-	-	-
Granted	-	-	7,827,424	-
Outstanding at year-end	7,827,424	-	7,827,424	-

#### 22 Related Party Transactions

##### (a) Identification of Related Parties

(i) AFA Enterprises Pty Ltd ("AFA"), controlled by Mr Adam J Vella, Non Executive Director of Recoilless Technologies International Corp. Limited;

(ii) Vader Pty Ltd ACN 085 837 547 ("Vader"), controlled by Mr Richard Giza and Mr Joseph Vella who are also Executive Directors and controlling Shareholders of Recoilless Technologies International Corp. Limited. Vader owns the intellectual property under development by Recoilless Technologies International Corp. Limited;

(iii) Giza Global Group Pty Ltd ACN 095 228 890 ("GGG") controlled by Mr Joseph Vella and Mr Richard Giza who are also Executive Directors of Recoilless Technologies International Corp. Limited. GGG has a shareholding in Recoilless Technologies International Corp. Limited.

(iv) Vella's Woodturning, owned by Mr Joseph Vella, Executive Director of Recoilless Technologies International Corp. Limited;

(v) Advanced Propulsion Systems Pty Ltd ACN 113 666 925, Universal Pressure Vessels Pty Ltd ACN 113 666 970 and Advanced Safeguard Technologies Pty Ltd ACN 129 911 753 are controlled by Mr Richard Giza and Mr Joseph Vella, Executive Directors of Recoilless Technologies International Corp. Limited. Each of these three companies has a Shareholding in Recoilless Technologies International Corp. Limited, with Advanced Safeguard Technologies Pty Ltd the majority shareholder.

(vi) Recoilless Technologies International Corp. Limited is the sole Shareholder of Recoilless Technologies International (USA). currently a dormant company registered in the USA. Mr Richard Giza is the sole officeholder of Recoilless Technologies International (USA) and is also an Executive Director of Recoilless Technologies International Corp. Limited; and

(vii) Recoilless Technologies International Corp. Limited is the sole shareholder of Recoilless Technologies International (New Zealand), incorporated in New Zealand on 22nd November 2007. Mr Richard Giza is a Director of Recoilless Technologies International (New Zealand).

## **Recoilless Technologies International Corp. Limited**

**ACN 092 154 857**

### **Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

## **22 Related Parties Transactions continued**

### **(b) Transactions involving other related parties**

(i) One director of Recoilless Technologies International Corp. Limited, Mr Adam J Vella, is also a Director of AFA Enterprises Pty Ltd ("AFA"), which receives fees under a contractor agreement which represent remuneration that Mr Vella would otherwise be entitled to in his capacity of a Director of Recoilless Technologies International Corp. Limited if he were employed directly by Recoilless Technologies International Corp. Limited. The annual contractor fee is \$62,920 (inclusive of GST) and the annual Directors fee is \$33,000 (inclusive of GST). During the financial year, the actual cost incurred in connection with AFA is \$1,375 (2007: \$84,194).

(ii) Two Executive Directors of Recoilless Technologies International Corp. Limited, Mr Richard Giza and Mr Joseph Vella have sole control of Vader Pty Ltd ("Vader") who owns the Recoilless Technology. A Collaborative Research and Development and Licence Agreement was signed between Vader and Recoilless Technologies International Corp. Limited. Some services have been provided by Vader at nil cost to Recoilless Technologies International Corp. Limited. Recoilless Technologies International Corp. Limited paid the ASIC and accounting fees in relation to Vader and during the financial year, the actual cost of these fees is \$412. (2007: \$392).

(iii) Two Directors of Recoilless Technologies International Corp. Limited, Mr Joseph Vella and Mr Richard Giza are Directors and equal shareholders of Giza Global Group Pty Ltd ("GGG"). Recoilless Technologies International Corp. Limited paid the ASIC fees for this company and during the financial year, the actual cost of these fees is \$212. (2007: \$392).

(iv) One Director of Recoilless Technologies International Corp. Limited, Mr Joseph Vella, is also a joint owner of Vella's Woodturning. Recoilless Technologies International Corp. Limited occupies some of the office space owned by Vella's Woodturning and pays rent and outgoings including utilities, rates and body corporate fees charged at normal commercial rates. The total expense in this regard amounts to \$52,027 (2007: \$25,550) during the financial year comprising \$39,930 rent and \$12,097.23 outgoings.

(v) Mr Richard Giza and Mr Joseph Vella, Executive Directors of Recoilless Technologies International Corp. Limited, also control three additional entities namely Advanced Propulsion Systems Pty Ltd ACN 113 666 925, Universal Pressure Vessels Pty Ltd ACN 113 666 970 and Advanced Safeguard Technologies ACN 129 911 753. Recoilless Technologies International Corp. Limited paid the ASIC fees for these companies and during the financial year, the actual cost of these fees is \$424 (2007: \$978). Each of these companies has a Shareholding in Recoilless Technologies International Corp. Limited.

## **23 Subsequent Events**

(i) To facilitate its business in Poland, and acting as a local contact for Europe, Recoilless Technologies International Corp. Limited is in the process of registering a Polish subsidiary, Recoilless Technologies International (Poland) Sp. z.o.o. No capital has yet been injected into this subsidiary. It is anticipated that the subsidiary will be registered by 31<sup>st</sup> January 2009.

(ii) To facilitate its business in Singapore, and acting as a local contact for South East Asia, Recoilless Technologies International Corp. Limited registered a Singaporean subsidiary, Recoilless Technologies International (Singapore) Pte Ltd on 26 August 2008. No capital has yet been injected into this subsidiary.

(iii) Recoilless Technologies International Corp. Ltd. received \$232,000 cash after year end from investors.

**Recoilless Technologies International Corp. Limited**

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**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**24 Change in Accounting Policy**

The following Australian Accounting Standards issued or amended and are applicable to the association but not yet effective and have not been adopted in preparation of the financial statements at reporting date.

<b>AASB Amendment</b>	<b>Standard Affected</b>	<b>Outline of Amendment</b>	<b>Application Date of Standard</b>	<b>Application Date for the Entity</b>
AASB2007-3 Amendments to Australian Accounting Standards	AASB 5: Non-current Assets Held for Sale and Discontinued Operations AASB 107: Cash Flow Statements AASB 119: Employee Benefits AASB 136: Impairment of Assets	The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Segment Reporting in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report.	1 January 2009	1 July 2009
AASB 2007-6 Amendments to Australian Accounting Standards	AASB 1: First-time adoption of AIFRS Adoption of AIFRS AASB 101: Presentation of Financial Statements AASB 116: Property, Plant and Equipment AASB138: Intangible Assets	However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the financial report. The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as they already capitalise borrowing costs related to qualifying assets.	1 January 2009	1 July 2009

**Recoilless Technologies International Corp. Limited**

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**Notes to the Financial Statements**

**For the Year Ended 30 June 2008**

**24 Change in Accounting Policy continued**

<b>AASB Amendment</b>	<b>Standard Affected</b>	<b>Outline of Amendment</b>	<b>Application Date of Standard</b>	<b>Application Date for the Entity</b>
AASB 123: Borrowing Costs	AASB 123: Borrowing Costs	As above.	1 January 2009	1 January 2009
AASB 2007-8 Amendments to Australian Accounting Standards	AASB 101: Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity.	1 January 2009	1 July 2009
AASB 101	AASB 101: Presentation of Financial Statements	As above.	1 January 2009	1 July 2009

**25 Company Details**

**Registered office**

The registered office of the company is:

Recoilless Technologies International Corp. Limited  
18/595-599 Chandler Road  
Keysborough VIC 3173



HARVEY COOK  
MALCOLM FIELDEN  
SHARRON KYROUSSIS  
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**Recoilless Technologies International Corp. Limited**

**ACN 092 154 857**

**Auditors Independence Declaration under Section 307C of the Corporations Act 2001**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2008 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.

*Whelan & Cook*

Whelan & Cook  
Chartered Accountants

*Malcolm Fielden*

Malcolm Fielden  
Partner

Dated : 9/1/2009

Level 16, 499 St Kilda Road  
Melbourne VIC 3004