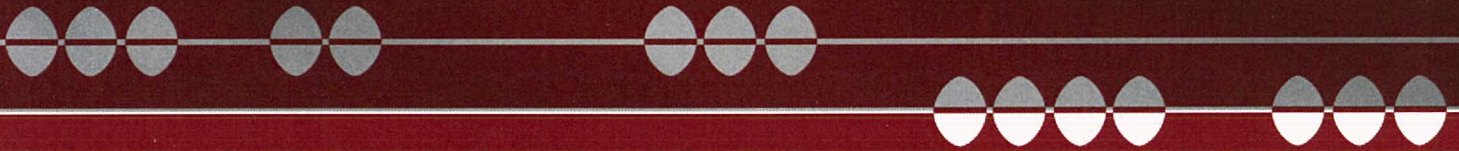


W H E L A N & C O O K



Recoilless Technologies International Corp. Limited

Audited Financial Statements

For the Year Ended 30 June 2009

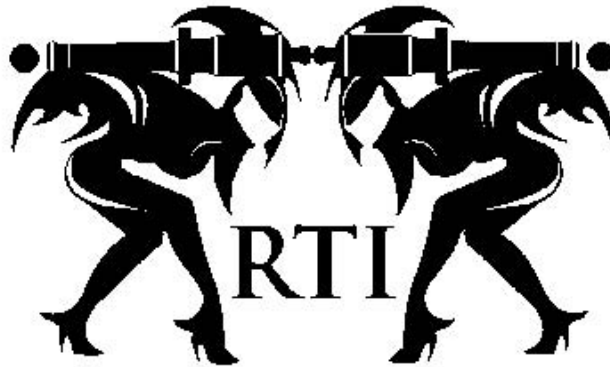


W H E L A N & C O O K

HARVEY COOK
MALCOLM FIELDEN
SHARRON KYROUSSIS
DARRYL SMITH
PATRICK WHELAN

16th floor
499 St Kilda Road
Melbourne 3004 Australia
PO Box 7332
St Kilda Road Vic 8004 Australia

Telephone (03) 8866 0999
Facsimile (03) 9820 0750
www.wc.com.au
ABN: 30 965 806 808



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

Financial Statements

For the Year Ended 30 June 2009

Recoilless Technologies International Corp. Limited

ACN 092 154 857

For the Year Ended 30 June 2009

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HARVEY COOK
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16th floor
499 St Kilda Road
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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 (the company), which comprises the balance sheet as at 30 June 2009, 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 company'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 2009 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 \$1,615,156 during the year ended 30 June 2009 and, as of that date, the Company's current liabilities exceeded its current assets by \$1,561,104. 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: *23rd December 2009*

Level 16, 499 St Kilda Road
Melbourne VIC 3004

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Directors' Report

30 June 2009

Your directors present their report on the company for the financial year ended 30 June 2009.

1. General information

Directors

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

Names	Particulars
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>
Geoffrey Morgan Executive Director & Chief Operations Officer	<p>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</p>

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

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Directors' Report

30 June 2009

Company Secretary

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

- Geoffrey Morgan

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 \$1,615,156. Included in the total expenses, there are \$523,158 non-cash expenses relating to the Employee Share Option Plan. Recoilless Technologies International Corp. Limited issued share options to selected employees and directors during 2009, and the value of the options need to be expensed over the vesting period.

Review of operations

Overview of operations of the company during the financial year:

Research and Development Tax Concession

RTI received funding through a Research and Development Tax Concession scheme to an amount of \$113,937.

Poland Developments

A significant amount of time, effort and resources has been placed into the preparation and finalisation of negotiations for the signing of Joint Development Agreements combined with detailed and specific Research and Development Project Plans with a major Polish defence manufacturer. RTICL's Managing Director, Mr Richard Giza, together with RTICL's Polish operatives, have now formally presented these documents for consideration and subsequent execution. As soon as the documentation is signed by both parties, RTICL will be making a formal announcement.

In addition RTICL intends to sign a Joint Development Agreement with Huta Stalowa Wola (HSW) following on from the Letter of Intent signed in 2007. The signing of these Joint Development Agreements will see the commencement of advanced Research and Development to produce Concept Technology Demonstrators for both small and large calibre weapons and this is the precursor to full commercialisation of the Recoilless Technology. It is also anticipated that this will generate significant interest and investment in RTICL on a global scale.

Singapore Developments

Once negotiations for the Joint Development Agreements within Poland are finalised, Mr Giza will be returning to Singapore to continue arrangements for the major capital investment that will support RTICL's contribution towards the proposed Joint Development Projects in Poland. In fact the Polish Ambassador in Singapore has agreed to facilitate the arrangements, negotiating the investment with the Singapore authorities as both countries stand to benefit significantly from such an investment. These negotiations will also involve detailed technical discussions that require Mr Giza's involvement.

The major investment will see benefits for all involved, and in particular RTICL, as it will provide the required funding for the Joint Development Agreements that will ultimately lead to the commercialisation of the recoilless technology.

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Directors' Report

30 June 2009

Stock Exchange Listing

RTICL is continuing to make arrangements for a stock exchange listing and at all times the best interests of the Shareholders remains the top priority in this regard. All appropriate steps that need to be taken for a successful listing are being carefully researched, analysed and followed.

RTICL is presently considering the most appropriate ways to achieve the listing whether it be the listing of the Polish subsidiary, the registration and subsequent listing of a new European entity or the listing of an existing shell company. Whichever option is finally chosen will incur substantial costs as outlined in the April 2009 Newsletter. RTICL is seeking appropriate legal and accounting advice in respect to this matter.

Prototype Developments

Further enhancements and testing of the Gamma Prototype have continued using various component alternatives along with modified ammunition and stronger charges. These enhancements are providing valuable research into the multiple ways recoil can be controlled. The testing and use of modified ammunition and stronger charges supports RTICL's claims that more powerful ammunition can be used in ballistic weapons whilst still completely controlling or removing recoil.

In addition, RTICL's Senior Engineer, Mr John Sander, is conducting research into alternative recoil control applications. Further testing and development of this application is also currently in progress. Additionally Mr Sander has also designed an electronic device for measuring recoil results and this device has now been installed and is being tested.

Patent Developments

A new provisional patent application titled 'Device for Reducing Recoil' was filed in January 2009 to recognise the alternative system designed by Mr Sander. RTICL is prevented from revealing the details of such application until a priority date for granting is provided and the patent is subsequently published.

There are now 25 patents granted for the original patent titled 'Recoil Control Mechanism for a Weapon' and it is expected that many new patent applications will be filed as RTICL moves into the next phases of technology development.

Further Development

In the following year, Recoilless Technologies International Corp. Limited will be dedicated to the following:

- Stock exchange listing;
- Contracts for the Joint Development of the Recoilless Technology, particularly contracts within Poland;
- Expansion of the Research and Development facilities and resources;
- Finalisation of a major capital investment;
- Filing of new patent applications;
- Maintenance of existing patents;
- Improvement in security;
- Expansion of current subsidiaries in Poland, Singapore, United States of America and New Zealand; and
- Substantially increase Research and Development activities with RTI's Joint Development Partners to incorporate the Recoilless Technology into both small and large calibre weapons to produce Concept Technology Demonstrators.

The above will assist with the commercialisation of the recoilless technology.

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Directors' Report

30 June 2009

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 date events

- (i) To facilitate its business in Poland, Recoilless Technologies International Corp. Limited registered a second Polish entity, Recoilless Technologies International S.A. on 20 August 2009. Initial capital of AU\$45,000 (100,000 Polish Zloty) has been injected as a condition of the registration of this entity.

In order for RTI to consider any form of fundraising in Poland to assist with the Polish entity being self sufficient and therefore fund relative Research and Development projects within Poland, it is necessary for this Australian equivalent of a public unlisted entity to be registered. This entity will also provide RTI with the freedom to enter into Joint Research and Development contracts within Poland.

- (ii) Recoilless Technologies International Corp. Limited received \$507,893.15 cash after year end from investors and 672,494 ordinary shares were issued in exchange for these investment funds.
- (iii) Recoilless Technologies International Corp. Limited issued 44,800 ordinary shares for nil consideration to individuals who assisted the company and elected not to be financially remunerated.
- (iv) On 17 September 2009 Recoilless Technologies International Corp. Limited signed its first rapid major ground breaking practical technology development for incorporation of its recoilless technology into a superior family of weapons developed by Hungarian company, Sero Kft. Shareholders were notified of this event by newsletter on 29 September 2009.

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 2009 has been received and can be found on page 40 of the financial report.

Meetings of Directors

During the financial year, no meetings of Directors (including committees of directors) were held. Due to the small size of the Board of Directors, it was considered appropriate for regular informal meetings as opposed to formal Board Meetings and all resolutions passed were by way of Circular Resolution duly signed by the three board members.

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Directors' Report

30 June 2009

Options issued as part of remuneration for the year ended 30 June 2009

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 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
Directors							
Geoffrey Morgan	-	153,608	1 Sept. 2008	-	\$0.01	1 Sept 2013	1 Sept 2018
	-	153,608					

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



Geoffrey Morgan

Director

Dated this 23rd day of December 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 39, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards; and
 - (b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the Company;
2. The managing director of the company declares 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.



Geoffrey Morgan

Director

Dated this 23rd day of December 2009

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Income Statement

For the Year Ended 30 June 2009

		2009	2008
	Note	\$	\$
Other income	2	116,513	323,981
Occupancy expenses		(60,380)	(70,176)
Administrative expenses		(1,339,375)	(1,472,690)
Finance costs		(99,954)	(73,057)
Other expenses		(231,960)	(245,899)
Profit before income tax		(1,615,156)	(1,537,841)
Income tax expense	5	-	-
Profit attributable to members		(1,615,156)	(1,537,841)

Earnings Per Share:

Overall operations:

Basic earnings per share (cents per share)	17	(2.97)	(2.89)
Diluted earnings per share (cents per share)	17	(2.97)	(2.89)

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Balance Sheet

30 June 2009

	Note	2009 \$	2008 \$
ASSETS			
Current assets			
Cash and cash equivalents	6	3,557	422
Tax Receivable		27,412	87,793
Other current assets	7	9,661	15,256
Total current assets		<u>40,630</u>	103,471
Non-current assets			
Property, plant and equipment	8	354,601	440,193
Intangible assets	9	190,036	205,558
Total non-current assets		<u>544,637</u>	645,751
TOTAL ASSETS		<u>585,267</u>	749,222
LIABILITIES			
Current liabilities			
Trade and other payables	10	416,005	354,175
Financial liabilities	11	844,879	513,958
Short-term provisions	13	162,579	96,984
Other current liabilities	14	178,271	174,809
Total current liabilities		<u>1,601,734</u>	1,139,926
Non-current liabilities			
Financial liabilities	11	-	37,049
Total non-current liabilities		<u>-</u>	37,049
TOTAL LIABILITIES		<u>1,601,734</u>	1,176,975
NET ASSETS		<u>(1,016,467)</u>	(427,753)
EQUITY			
Issued capital	15	9,359,344	8,856,060
Reserves		5,289,526	4,766,368
Accumulated losses		(15,665,337)	(14,050,181)
TOTAL EQUITY		<u>(1,016,467)</u>	(427,753)

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Statement of Changes in Equity

For the Year Ended 30 June 2009

2009

	Ordinary Shares	Accumulated Losses	Equity-Settled Employee Benefits Reserve	Other Equity-Settled Share-Based Payment Reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2008	8,856,060	(14,050,181)	4,761,818	4,550	(427,753)
Shares issued during the year	503,284	-	-	-	503,284
Loss for the year	-	(1,615,156)	-	-	(1,615,156)
Recognition of share-based payments	-	-	523,158	-	523,158
Sub-total	503,284	(1,615,156)	523,158	-	(588,714)
Balance at 30 June 2009	9,359,344	(15,665,337)	5,284,976	4,550	(1,016,467)

Note

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Statement of Changes in Equity

For the Year Ended 30 June 2009

2008

	Ordinary Shares	Accumulated Losses	Equity-Settled Employee Benefits Reserve	Other Equity-Settled Share-Based Payment Reserve	Total
Note	\$	\$	\$	\$	\$
Balance at 1 July 2007	8,168,330	(12,512,340)	4,268,250	483,149	407,389
Loss for the year	-	(1,537,841)	-	-	(1,537,841)
Shares issued during the year	342,000	-	-	-	342,000
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)	-
Sub-total	687,730	(1,537,841)	493,568	(478,599)	(835,142)
Balance at 30 June 2008	8,856,060	(14,050,181)	4,761,818	4,550	(427,753)

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Cash Flow Statement

For the Year Ended 30 June 2009

	2009	2008
Note	\$	\$
Cash from operating activities:		
Government Grants	176,182	235,012
Payments to suppliers and employees	(972,374)	(1,035,589)
Other receipts	2,500	-
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	(793,692)	(800,577)
Cash flows from investing activities:		
Interest received	75	-
Acquisition of property, plant and equipment	(5,287)	(17,921)
Payment for intangible assets	(1,098)	(13,251)
	<hr/>	<hr/>
Net cash provided by (used in) investing activities	(6,310)	(31,172)
Cash flows from financing activities:		
Proceeds from issue of shares	503,285	342,000
Proceeds from borrowings	454,084	489,130
Repayment of borrowings	(149,111)	-
Repayment of finance lease liabilities	(13,694)	(21,288)
	<hr/>	<hr/>
Net cash provided by (used in) financing activities	794,564	809,842
Other activities:		
Net increase (decreases) in cash held	(5,438)	(21,907)
Cash at beginning of financial year	422	22,329
	<hr/>	<hr/>
Cash at end of financial year	(5,016)	422
	<hr/>	<hr/>

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(a)

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Notes to the Financial Statements

For the Year Ended 30 June 2009

1 Accounting policies

Basis of Preparation

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

The financial report covers 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.

The financial report has been prepared on an accruals basis and is based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) 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 assets and liabilities are 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.

(b) 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.

(c) Property, plant and equipment

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

1 Accounting policies continued

(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 including capitalised lease 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.

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

Class of Fixed Asset

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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the income statement.

(d) Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to contractual provisions of the instruments. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

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.

(i) 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 subsequently measured at amortised cost.

(ii) Financial liabilities

Non-derivative financial liabilities are subsequently measured at amortised cost.

1 Accounting policies continued

(iii) 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.

(e) 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.

(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.

(f) 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.

(g) 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.

(h) 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.

(i) Comparatives

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

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Notes to the Financial Statements

For the Year Ended 30 June 2009

1 Accounting policies continued

(j) Borrowing Costs

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.

(k) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting.

(l) Revenue and Other Income

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 2009 the Company recorded losses from continuing operations before taxation of \$1,615,156 (2008: \$1,537,841), incurred negative cash flows from operations of \$793,692 (2008: \$800,577) in the financial year, and has a deficiency of current assets over current liabilities at 30 June 2009 of \$1,537,334 (2008: \$1,036,455).

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Notes to the Financial Statements

For the Year Ended 30 June 2009

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.

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 the shorter of their estimated useful lives or over the term of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor are charged as expenses on a straight-line basis over the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(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.

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Notes to the Financial Statements

For the Year Ended 30 June 2009

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

	Note	2009 \$	2008 \$
Operating activities			
- interest received		75	1,374
- government grants		113,938	285,497
- other revenue		2,500	37,110
Total Revenue		<u>116,513</u>	<u>323,981</u>

3 Loss for the Year

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

	2009 \$	2008 \$
Depreciation of property, plant and equipment	75,619	83,839
Amortisation of intangible assets	16,620	16,740
Loss on disposal of property, plant and equipment	13,160	-
Operating lease rental expenses	39,600	21,323
Net foreign exchange gains	-	(1,374)
Employee benefit expense		
Defined contributions plan	55,761	48,826
Equity-settled share-based payments	523,158	493,568
Other employee benefits	10,219	84,878

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Notes to the Financial Statements

For the Year Ended 30 June 2009

4 Auditors' Remuneration

	2009	2008
	\$	\$
Remuneration of the auditor of the company for:		
- Auditing or reviewing the financial report	40,000	60,400
- Taxation services	-	3,300

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:

	2009	2008
	\$	\$
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2008: 30%)	(484,547)	(461,352)
Add:		
Tax effect of:		
- non-deductible expenses	16,779	5,327
- share options expensed during year	156,947	148,070
- temporary differences	12,095	22,515
Benefit of current loss not recognised	298,726	285,440
Total	-	-
Income tax expense	-	-

Deferred tax assets from tax losses - revenue of \$2,052,706 (2008: \$1,845,399) have not been brought to account as assets.

6 Cash and cash equivalents

	2009	2008
	\$	\$
Cash on hand	42	-
Cash at bank	3,515	422
	3,557	422

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Notes to the Financial Statements

For the Year Ended 30 June 2009

7 Other Assets

	2009	2008
	\$	\$
CURRENT		
Deposit	410	330
Loan to directors	-	5,980
Prepayments	9,251	8,946
	<u>9,661</u>	<u>15,256</u>

8 Property, plant and equipment

	2009	2008
	\$	\$
Plant and Equipment		
At cost	396,429	410,134
Less accumulated depreciation	<u>(135,967)</u>	<u>(109,248)</u>
Total capital works in progress	<u>260,462</u>	300,886
Furniture, fixture and fittings		
At cost	54,025	61,334
Less accumulated depreciation	<u>(32,981)</u>	<u>(26,941)</u>
Total furniture, fixture and fittings	<u>21,044</u>	34,393
Motor vehicles		
At cost	71,400	71,400
Less accumulated depreciation	<u>(40,181)</u>	<u>(23,704)</u>
Total motor vehicles	<u>31,219</u>	47,696
Leasehold improvements		
At cost	76,716	76,716
Less accumulated depreciation	<u>(34,840)</u>	<u>(19,498)</u>
Total leasehold improvements	<u>41,876</u>	57,218
Total property, plant and equipment	<u>354,601</u>	<u>440,193</u>

(a) Movements in Carrying Amounts

	Plant and Equipment	Furniture, Fixtures and Fittings	Motor Vehicles	Leasehold Improvements	Total
	\$	\$	\$	\$	\$
Current Year					
Balance at the beginning of year	300,886	34,393	47,696	57,218	440,193
Additions	5,287	-	-	-	5,287
Disposals	(10,677)	(4,583)	-	-	(15,260)
Depreciation expense	(35,033)	(8,767)	(16,477)	(15,342)	(75,619)
Carrying amount at the end of year	<u>260,463</u>	<u>21,043</u>	<u>31,219</u>	<u>41,876</u>	<u>354,601</u>

8 Property plant and equipment continued

(a) Movements in Carrying Amounts continued

	Plant and Equipment	Furniture, Fixtures and Fittings	Motor Vehicles	Leasehold Improvements	Total
	\$	\$	\$	\$	\$
Prior Year					
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	300,886	34,393	47,696	57,218	440,193

9 Intangible assets

	2009	2008
	\$	\$
Patents and trademarks		
Cost	192,961	191,863
Accumulated amortisation and impairment	(2,925)	(2,925)
Net carrying value	<u>190,036</u>	<u>188,938</u>
Tradewise Credits		
Cost	1,050,000	1,050,000
Accumulated amortisation and impairment	(1,050,000)	(1,050,000)
Net carrying value	<u>-</u>	<u>-</u>
Computer software		
Cost	50,220	50,220
Accumulated amortisation and impairment	(50,220)	(33,600)
Net carrying value	<u>-</u>	<u>16,620</u>
Total Intangibles	<u>190,036</u>	<u>205,558</u>

Reconciliation Detailed Table

	Patents and trademarks	Computer software	Total
	\$	\$	\$
Year ended 30 June 2008			
Opening balance	191,863	33,360	225,223
Amortisation	(2,925)	(16,740)	(19,665)
Balance at 30 June 2008	188,938	16,620	205,558
Year ended 30 June 2009			
Opening balance	188,938	16,620	205,558
Additions	1,098	-	1,098
Amortisation	-	(16,620)	(16,620)
Balance at 30 June 2009	\$190,036	-	\$190,036

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Notes to the Financial Statements

For the Year Ended 30 June 2009

10 Trade and other payables

	2009	2008
	\$	\$
CURRENT		
Secured Liabilities		
Trade payables	337,188	296,396
Other payables	78,817	57,779
	416,005	354,175

11 Borrowings

	2009	2008
	\$	\$
CURRENT		
Unsecured liabilities		
Loans from other related parties	801,454	493,923
	801,454	493,923
Secured liabilities		
Finance lease obligation	43,425	20,035
	43,425	20,035
	844,879	513,958

	2009	2008
	\$	\$
NON-CURRENT		
Secured liabilities		
Finance lease obligation	-	37,049
	-	37,049

(a) Total current and non-current secured liabilities

	2009	2008
	\$	\$
Finance lease obligations	43,425	57,084

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Notes to the Financial Statements

For the Year Ended 30 June 2009

12 Capital and Leasing Commitments

(a) Finance Lease Commitments

	2009	2008
	\$	\$
Payable - minimum lease payments		
- no later than 12 months	46,461	26,862
- between 12 months and 5 years	-	40,549
Minimum lease payments	-	67,411
Less future finance changes	(3,036)	(10,327)
Present value of minimum lease payments	43,425	57,084

13 Provisions

	Employee entitlements	Total
	\$	\$
Opening balance at 1 July 2008	96,984	96,984
Additional provisions	169,892	8,607
Amounts used	(104,297)	(21,355)
Balance at 30 June 2009	162,579	84,236

14 Other Liabilities

	2009	2008
	\$	\$
CURRENT		
Accruals	178,271	173,599
Total	178,271	173,599

15 Issued Capital

(a) Summary Table

	2009	2008
	\$	\$
56,181,984 (2008: 54,516,870) Ordinary	9,359,344	8,856,060
26,000,000 (2008: 26,000,000) Preference	-	-
Total	9,359,344	8,856,060

The company has authorised share capital amounting to 70,000,000 of which 13,818,016 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.

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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 2009, selected employees have options over 8,322,559 of the Company's ordinary shares, of which 6,217,619 vested and the remaining 2,104,940 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

No other equity-settled share-based payments were transacted during the twelve month period ending 30 June 2009.

17 Earnings per Share

(a) Detailed table

Basic earnings per share

The calculation of basic earnings per share at 30 June 2009 was based on the net loss attributable to ordinary shareholders of \$1,615,156 (2008: \$ 1,537,841) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2009 of 54,315,633 (2008: 53,153,019.00), calculated as follows:

Net profit attributable to ordinary shareholders:

	2009	2008
	\$	\$
Net loss for the year	(1,615,156)	(1,537,841)
Net profit attributable to ordinary shareholders	(1,615,156)	(1,537,841)

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Notes to the Financial Statements

For the Year Ended 30 June 2009

17 Earnings Per Share Continued

(a) Detailed table continued

Weighted average number of ordinary shares:

	2009	2008
	\$	\$
Issued ordinary shares	54,315,633	53,153,019
Weighted average number of ordinary shares	54,315,633	53,153,019

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2009 was based on the net loss attributable to ordinary shareholders of \$1,615,156 (2008: \$ 1,537,841) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2009 of 54,315,633 (2008: 53,153,019), calculated as follows:

Net profit attributable to ordinary shareholders (diluted):

	2009	2008
	\$	\$
Net profit attributable to ordinary shareholders	(1,615,156)	(1,537,841)
Net profit attributable to ordinary shareholders (diluted)	(1,615,156)	(1,537,841)

Weighted average number of ordinary shares (diluted):

	2009	2008
	\$	\$
Weighted average number of ordinary shares	54,315,633	53,153,019
Equity-based lease payment	-	-
Weighted average number of ordinary shares (diluted)	54,315,633	53,153,019

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:

Key Management Person	Position
Richard Giza	Chairman, Managing Director and Chief Technology Architect
Joseph Vella	Executive Director and Technology Trustee
Geoffrey Morgan	Executive Director, Chief Operations Officer and Company Secretary

- The above named directors held office during and since the end of the financial year.

Company Secretary

- Geoffrey Morgan

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Notes to the Financial Statements

For the Year Ended 30 June 2009

18 Key Management Personnel Compensation continued

(b) Key Management Personnel Compensation

2009	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	19,615	-	-	-	1,765	-	-	-	21,380	-
Joseph Vella	26,923	-	-	-	2,423	-	-	-	29,346	-
Geoffrey Morgan	70,769	-	-	-	6,369	-	-	153,608	230,747	-
	117,307	-	-	-	10,557	-	-	153,608	281,473	-

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

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Notes to the Financial Statements

For the Year Ended 30 June 2009

18 Key Management Personnel Compensation continued

2008	Cash, salary & commissions	Short-term benefits			Non-cash Benefits	Post employment benefits	Other long-term benefits	Share-based payments		Total	Performance related
		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	-	
	235,150	-	-	-	20,666	-	-	344,748	600,564	-	

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Notes to the Financial Statements

For the Year Ended 30 June 2009

18 Key Management Personnel Compensation continued

(c) Options and Rights Holdings

Number of Options Held by Key Management Personnel

	Balance 01/07/2008	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30/06/2009	Total Vested	Total Exercisable	Total Unexercisable
Geoffrey Morgan	253,608	153,608	-	-	407,216	-	-	407,216
Total	253,608	153,608	-	-	407,216	-	-	407,216

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 (2008: nil) were exercised by key management personnel. Further details of the Employee Share Option Plan and of share options granted during the 2009 financial year are contained in notes 21 to the financial statements.

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Notes to the Financial Statements

For the Year Ended 30 June 2009

18 Key Management Personnel Compensation continued

(d) Shareholdings

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

	Balance 01/07/2008	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/2009
Fully paid ordinary shares of Recoilless Technologies Corp. Limited					
Richard Giza	1,745,077	-	-	-	1,745,077
Joseph Vella	1,751,078	-	-	-	1,751,078
Geoffrey Morgan (i)	110,350	-	-	6,000	116,350
Giza Global Group Pty Ltd (ii)	3,000,000	-	-	17,000,000	20,000,000
Universal Pressure Vessels 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
	29,922,802	-	-	-	29,922,802
Fully paid preference shares of Recoilless Technologies International Corp. Limited	-	-	-	-	-
Giza Global Group Pty Ltd	3,000,000	-	-	17,000,000	20,000,000
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)	-
	26,000,000	-	-	-	26,000,000

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

(i) The net change in the shareholdings of Geoffrey Morgan represents an additional investment in the Company.

(ii) Richard Giza and Joseph Vella are exclusive shareholders of Giza Global Group Pty Ltd. At 30 June 2009, Giza Global Group Pty Ltd possesses 20,000,000 ordinary fully paid shares in the company and 20,000,000 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 from Advanced Safeguard Technologies Pty Ltd.

(iii) Richard Giza and Joseph Vella are exclusive shareholders of Universal Pressure Vessels Pty Ltd. At 30 June 2009, Universal Pressure Vessels Pty Ltd possesses 3,000,000 ordinary fully paid shares in the company 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 Ltd. At 30 June 2009, Advanced Propulsion Systems Pty Ltd possesses 3,000,000 ordinary fully paid shares in the company 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 2009 Advanced Safeguard Technologies Pty Ltd possesses zero ordinary fully paid shares in the company and zero 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. The net change in the shareholdings of Advanced Safeguard Technologies Pty Ltd represents the transfer of ordinary and preference shares to Giza Global Group Pty Ltd.

19 Cash Flow Information

(a) Reconciliation of Cash and Cash Equivalents

	2009	2008
	\$	\$
Cash and cash equivalents	3,557	422
Bank overdraft	(8,573)	-
Non-cash flows in profit	<u>(5,016)</u>	<u>422</u>

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

	2009	2008
	\$	\$
Net loss for the period	(1,615,156)	(1,537,840)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit		
Amortisation	16,620	16,740
Depreciation	75,619	76,042
Foreign exchange (gain)/loss	-	(953)
Equity-settled share-based payment	523,158	459,369
Interest income	(75)	(1,374)
Loss on disposal of property, plant and equipment	13,160	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
Decrease in trade and term receivables	69,247	61,656
Increase in trade payables and accruals	58,140	130,943
Increase/(decrease) in provisions	65,595	(5,160)
	<u>(793,692)</u>	<u>(800,577)</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:

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Notes to the Financial Statements

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20 Financial Instruments continued

(c) Interest Rate Risk

2009	Weighted Average Effective Interest Rate %	Fixed Interest Rate \$	Non-interest bearing \$	Total \$
Financial Assets:				
Cash and cash equivalents	-	-	3,557	3,557
Receivables	-	-	37,073	37,073
Total Financial Assets	-	-	40,630	40,630
Financial Liabilities:				
Loan - Unsecured	12.8	792,881		792,881
Bank overdraft	17.1	8,573		8,573
Trade and sundry payables			594,276	594,276
Employee Benefits			162,579	162,579
Lease liabilities	7	43,425		43,425
Total Financial Liabilities		844,879	756,855	1,601,734
2008				
2008	Weighted Average Effective Interest Rate %	Fixed Interest Rate \$	Non-interest bearing \$	Total \$
Financial Assets:				
Cash and cash equivalents	-	-	4,122	4,122
Receivables	-	-	94,103	94,103
Total Financial Assets		-	98,225	98,225
Financial Liabilities:				
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
Total Financial Liabilities		551,007	625,968	1,176,975

Recoilless Technologies International Corp. Limited

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Notes to the Financial Statements

For the Year Ended 30 June 2009

21 Share-based payments

Employee share option plan

The following share-based payment arrangements existed at 30 June 2009:

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:

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
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 (2008: \$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.

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Notes to the Financial Statements

For the Year Ended 30 June 2009

21 Share-based payments continued

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:

	2009		2008	
	Number of Options	Weighted Average Exercised Price	Number of Options	Weighted Average Exercised Price
	\$	\$	\$	\$
Outstanding at the beginning of the year	7,827,424	0.01	7,827,424	0.01
Granted	-	-	-	-
Outstanding at year-end	7,827,424	0.01	7,827,424	0.01

22 Related Party Transactions

(a) Identification of Related Parties

(i) 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;

(ii) 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;

(iii) Vella's Woodturning, owned by Mr Joseph Vella, Executive Director of Recoilless Technologies International Corp. Limited has a shareholding in 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. Universal Pressure Vessels Pty Ltd and Advanced Propulsion Systems Pty Ltd have a Shareholding in Recoilless Technologies International Corp. Limited;

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Notes to the Financial Statements

For the Year Ended 30 June 2009

22 Related Party Transactions continued

(a) Identification of Related Parties continued

(v) 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;

(vi) 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);

(vii) Recoilless Technologies International Corp. Limited is the sole shareholder of Recoilless Technologies International (Poland), incorporated in Poland through a Notary Act on 21 January 2009 and registered with the Commercial Court Registry on 20 March 2009. Mr Richard Giza and Mr Mikolaj Zapala are Directors of Recoilless Technologies International (Poland);

(ix) Recoilless Technologies International Corp. Limited is the sole shareholder of Recoilless Technologies International (Singapore), incorporated in Singapore 26 August 2008. Mr Richard Giza, Mr Joseph Vella and Mr Geoffrey Morgan are Directors of Recoilless Technologies International (Singapore) together with two local Directors; Ms Patricia Yong Lay Lee and Mr Huang Hong Hee.

(b) Transactions involving other related parties

(i) 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 \$212. (2008: \$412).

(ii) 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 \$547. (2008: \$212).

(iii) One Director of Recoilless Technologies International Corp. Limited, Mr Joseph Vella, is also the sole 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 \$51,906 (2008: \$52,027) during the financial year comprising \$39,600 rent and \$12,306 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 \$1,241 (2008: \$424). Advanced Propulsion Systems Pty Ltd and Universal Pressure Vessels Pty Ltd have a Shareholding in Recoilless Technologies International Corp. Limited.

Recoilless Technologies International Corp. Limited

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Notes to the Financial Statements

For the Year Ended 30 June 2009

23 Subsequent Events

(i) To facilitate its business in Poland, Recoilless Technologies International Corp. Limited registered a second Polish entity with the Commercial Court Registry, namely, Recoilless Technologies International S.A. on 8 September 2009. Although the entity is not fully registered until the court registration procedure is complete, the entity may commence trading as an 'in registration' company. Initial capital of AU\$45,000 (100,000 Polish Zloty) has been injected as a condition of the registration of this entity. In order for RTI to consider any form of fundraising in Poland to assist with the Polish entity being self sufficient and therefore fund relative Research and Development projects within Poland, it is necessary for this Australian equivalent of a public unlisted entity to be registered. This entity will also provide RTI with the freedom to enter into Joint Research and Development contracts within Poland.

(ii) Recoilless Technologies International Corp. Limited received \$507,893.15 cash after year end from investors and 672,494 ordinary shares were issued in exchange for these investment funds.

(iii) Recoilless Technologies International Corp. Limited issued 44,800 ordinary shares after year end for nil consideration to individuals who assisted the company and elected not to be financially remunerated.

(iv) On 17 September 2009 Recoilless Technologies International Corp. Limited signed its first rapid major ground breaking practical technology development for incorporation of its recoilless technology into a superior family of weapons developed by Hungarian company, Sero Kft. Shareholders were notified of this event by newsletter on 29 September 2009.

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Notes to the Financial Statements

For the Year Ended 30 June 2009

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.

AASB Amendment	Standard Affected	Outline of Amendment	Application Date of Standard	Application Date for the Entity
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. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the financial report.	1 January 2009	1 July 2009
AASB 2007-6 Amendments to Australian Accounting Standards	Adoption of AIFRS AASB 101: Presentation of Financial Statements AASB 116: Property, Plant and Equipment AASB138: Intangible Assets	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 2009

24 Change in Accounting Policy continued

AASB Amendment	Standard Affected	Outline of Amendment	Application Date of Standard	Application Date for the Entity
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
DARRYL SMITH
PATRICK WHELAN

16th floor
499 St Kilda Road
Melbourne 3004 Australia
PO Box 7332
St Kilda Road Vic 8004 Australia
Telephone (03) 8866 0999
Facsimile (03) 9820 0750
www.wc.com.au
ABN: 30 965 806 808

Recoilless Technologies International Corp. Limited

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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 2009 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 *23rd December 2009.*

Level 16, 499 St Kilda Road
Melbourne VIC 3004