



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

Financial Statements
For the Year Ended 30 June 2010

Recoilless Technologies International Corp. Limited

ACN 092 154 857

For the Year Ended 30 June 2010

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Recoilless Technologies International Corp. Limited ACN 092 154 857 and Controlled Entity

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) and Recoilless Technologies International Corp. Limited and Controlled Entity (the consolidated entity), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation 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 entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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 audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Recoilless Technologies International Corp. Limited on March 2011, would be in the same terms if provided to the directors as at the date of this auditor's report.

Recoilless Technologies International Corp. Limited

ACN 092 154 857

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

Basis for Adverse Opinion

As explained in Note 1(a), the entity has not consolidated the financial statements of the subsidiaries Recoilless Technologies International Poland SP Z.O.O and Recoilless Technologies International SP it acquired during 2010 because it has not yet been able to obtain the audited financial statements of the subsidiaries. Under the Australian Accounting Standards, the subsidiaries should have been consolidated because they are controlled by the entity. Had the subsidiaries have been consolidated, it is possible that elements in the accompanying financial report may have been materially affected. The effects on the financial report of the failure to consolidate have not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the financial report does not present fairly the financial position of Recoilless Technologies International Corp. Limited and its subsidiaries as at 30 June 2010, and of their financial performance and their cash flows for the year then ended in accordance with Australian Accounting Standards and relevant reporting framework.

Material Uncertainty Regarding Continuation as a Going Concern

Furthermore, we draw attention to Note 1 (o) in the financial report which indicates that the Company incurred a net loss of \$1,800,824 during the year ended 30 June 2010 and, as of that date, the Company's current liabilities exceeded its current assets by \$1,591,506. 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

28 MAR 2011

Dated:

Level 16, 499 St Kilda Road
Melbourne VIC 3004

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Directors' Report

30 June 2010

Your directors present their report on the company for the financial year ended 30 June 2010.

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>
Miss Janeen Cooke Executive Director & Company Secretary (Appointed 18 May 2010 and continuing)	<p>Miss Janeen Cooke has had over 25 years experience working in both large and small companies in financial and administrative roles therefore she has a deep knowledge of the facets of running an efficient and productive company.</p> <p>For the past 8 years, Miss Cooke has been managing her own business, presenting the powers of positive thinking to large groups of people, including organisations, and demonstrating how a positive 'can-do' attitude can change your life and therefore have a positive impact within the workplace. Miss Cooke has put this business on hold to devote her attention to assisting RTICL move into the next level of commercialisation.</p>

Recoilless Technologies International Corp. Limited

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Directors' Report

30 June 2010

1. General information continued

Directors continued

Geoffrey Morgan
Executive Director &
Chief Operations Officer
(Resigned 18 May 2010)

As a long time supporter of RTICL, Miss Cooke is enthusiastic about growing with the company and assisting both the Board and Administration Department as the Company moves to achieve many exciting short and long term objectives.

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

Mr Boris Ansons
Non Executive Director
(Appointed 12 February 2010 and
Resigned 1 July 2010)

Mr Ansons has an extensive background in electronics engineering with a highly developed aptitude in civil and mechanical engineering. He holds an Associate Diploma in electronics engineering and is a graduate member of the Institute of Engineers Australia.

He has worked in many different industries and brings with him extensive knowledge in areas such as high power CO2 lasers, MIL spec. and power electronics, PLC's and industrial process control. He has specialised skills in R&D and in the use of many types of test and measurement instruments.

Mr Ansons' previous employment in the engineering industry spans more than fifteen years. Thereafter, he has been a Director and business owner with several years commercial experience in the former soviet state of Latvia and then in Australia. His Australian company specialises in electronic security systems, and under his direction has seen consistent growth since 1996.

With over 30 years in industry Mr Ansons' engineering and management skills will be invaluable to RTICL. This knowledge and experience will greatly assist RTICL as it moves forward with its plans for expansion of its technology on a global scale not only in weapons but also in other applications in civilian technology.

Mr Giza and Mr Vella have been in office since the start of the financial year to the date of this report.

Company Secretary

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

- Geoffrey Morgan (resigned 18 May 2010)
- Janeen Cooke (appointed 8 June 2010)

Recoilless Technologies International Corp. Limited

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Directors' Report

30 June 2010

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 together with progressing and formalizing commercial arrangements for the development of the Recoilless Technology in conjunction with Defence Contractors and Manufacturers.

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 \$1,800,824. Included in the total expenses, there are \$816,889 non-cash expenses relating to the Employee Share Option Plan. Recoilless Technologies International Corp. Limited issued share options to selected employees and directors during 2010, 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 \$64,408.50 for the 2009 financial year.

Poland Developments

Significant progress has been made by RTICL in Poland throughout 2010. The Company's Managing Director, Mr Richard Giza, together with RTICL's Polish representatives, established a great deal of contacts with leading Research and Development centers and manufacturers in Poland. Discussions were held with executives of the Bumar Group as well as with the management of their subsidiaries. As a result, RTICL has signed an Umbrella Contract as well as a Joint Development Agreement (JDA) with Osrodek Badawczo Rozwojowy SprzetuMechanicznego w Tarnowie (OBR SM) which will see the commencement of advanced research projects on recoilless technology and its implementation into medium sized caliber of weapons. Initiation of the first project is expected in 2011. RTICL is also placing great effort into negotiating deals with defense manufactures for the development of Recoilless Technology in large caliber weaponry. For this purpose, RTICL has signed an Umbrella Contract with Military Engineering Works in Deblin Poland. This state-owned company, operating under direct supervision of the Ministry of National Defense will be the focal point of large scale weaponry projects with expected participation of other entities which will further support and develop these potential projects.

Continuing the great progress achieved in 2010, RTICL is planning the initiation of work on Concept Technology Demonstrators in various calibers in 2011. In partnership with leading defense manufacturers and scientific centers, RTICL will be developing technologies with applications in both the military and civilian markets.

Singapore Developments

Once negotiations within Poland are finalised, and agreements have been signed, Mr Giza will be returning to Singapore to continue arrangements possible major capital investment(s) that will support RTICL's contribution towards the proposed Joint Development Projects in Poland as well as the establishment of a Technological Centre of Excellence in Singapore to further develop the technology and hopefully in conjunction with Singapore defence manufacturers and the local Government. The Polish Ambassador in Singapore has agreed to facilitate the arrangements for 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

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Directors' Report

30 June 2010

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 has engaged in numerous meetings and email exchanges in an attempt to engage the most appropriate professional team and firm to coordinate a stock exchange listing for RTICL within Australia. This is the most effective way to ensure RTICL meets all required obligations and ensure a successful listing if a knowledgeable team with prior listing experience is engaged.

RTICL is also considering concurrent stock exchange listings 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. 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, accompanied by further advancements to the exterior of the prototype. 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.

Improved versions of the Recoilless Technology have now been subjected to more stringent testing using new recoil testing apparatus that has been recently installed in the armoured test cell. This new testing apparatus allows RTICL to now carry out recoil testing with improved accuracy and reliability, and consequently thus also allows more ready comparison of the actual performance of the Recoilless Technology against the actual performance of competitive recoil-reducing products from elsewhere in the world. In all cases the Recoilless Technology has clearly demonstrated its superiority in recoil-reducing performance, along with its accompanying very good capacity for reducing the visibility of the gun muzzle flash - a very desirable feature in certain military applications.

Various prototypes of the current Recoilless Technology, [now sometimes called 'GasBrake' or 'Muzzle Brake'] have been constructed and tested as above in order to ascertain the optimum design parameters for maximum performance. This testing has required the assembly of a range of special cartridges containing precisely known amounts of propellant powder, along with a range of bullet weights from largest to smallest. All of these performed satisfactorily, with no perceptible losses in muzzle velocity, in the prototype guns.

Patent Developments

A new provisional patent application titled 'Device for Reducing Recoil' was filed in January 2010 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 26 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 sufficient capital is raised and RTICL moves into the next phases of technology development.

Recoilless Technologies International Corp. Limited

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Directors' Report

30 June 2010

Further Development

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

- Stock exchange listing;
- Finalise any pending contracts for the Joint Development of the Recoilless Technology within Poland;
- Expansion of the Research and Development facilities and resources;
- Finalisation of a major capital investment to prepare the Company for a Stock Exchange Listing and commence works on the development of the Recoilless Technology based on contracts that have been signed within Poland;
- Filing of new patent applications and the 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.

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) Recoilless Technologies International Corp. Limited received \$457,786.11 cash after year end from investors and 761,505 ordinary shares were issued in exchange for these investment funds
- (ii) Recoilless Technologies International Corp. Limited issued 227,833 ordinary shares for nil consideration to individuals who assisted the company and elected not to be financially remunerated.
- (iii) RTICL successfully applied for an Export Marketing and Development Grant (EMDG) to claim a rebate on international marketing expenditure. A total claim of \$112,269 was submitted of which the total rebate will be \$52,669 but this will be reduced as the EMDG grant is under funded. An amount of \$27,500 was received by RTICL in December 2010 and the remaining will be proportioned to the balance of the grant pool in June 2011.
- (iv) On 13 October 2010, a detailed Research and Development Agreement was signed between RTICL and a Research and Development Centre in Tarnow, Poland (OBR SM), to create a Concept Technology Demonstration (CTD) to incorporate the Recoilless Technology into a 7.62mm NATO round ALEX sniper rifle.

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Directors' Report

30 June 2010

3. Other items continued

After balance date events continued

- (i) Recoilless Technologies International Corp. Limited received \$457,786.11 cash after year end from investors and 761,505 ordinary shares were issued in exchange for these investment funds
- (ii) Recoilless Technologies International Corp. Limited issued 227,833 ordinary shares for nil consideration to individuals who assisted the company and elected not to be financially remunerated.
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- (iv) On 13 October 2010, a detailed Research and Development Agreement was signed between RTICL and a Research and Development Centre in Tarnow, Poland (OBR SM), to create a Concept Technology Demonstration (CTD) to incorporate the Recoilless Technology into a 7.62mm NATO round ALEX sniper rifle.
- (v) On 28 October 2010, RTICL signed a letter of intent with WZINZ, Deblin, Poland with the aim at involved WZINZ in various R&D projects, especially pertaining to the projects in large calibre where WZINZ would be a supplier of components and parts or even the whole weaponry needed for phase I and phase II of project development. There is also heavy interest from WZINZ to be involved in mass production when phase II of the R&D projects is reached. WZINZ Deblin is a Military Engineering Works entity that specialises in the repair and production of technical equipment for the Polish Armed Forces.
- (vi) RTICL and Bumar signed a Letter of Intent on 5 November 2010 that outlines the intent for RTICL and Bumar to sign an Agency Agreement which will allow RTICL to act as that company's agent in the Australasian region, focusing on marketing the various products that are manufactured by the Bumar Group. The Bumar Group of companies, 27 at present, produce and market a wide range of products from bullet proof vests, police batons, helmets and military grade gloves, to small arms, sniper rifles, grenade launchers, various military vehicles, rockets/missiles, a whole spectrum of ammunition and explosives and battle tanks.
- (vii) On 30 November 2010, a Letter of Intent was signed between RTICL and Vellas World Trading with the intent to commercialise the Recoilless Technology through licensing and establishing commercial relationships with selected manufacturers within various industries and markets.

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 or four board members.

Recoilless Technologies International Corp. Limited

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Directors' Report

30 June 2010

Options issued as part of remuneration for the year ended 30 June 2010

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.

No options were issued as part of remuneration during the year ended 30 June 2010.

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

A handwritten signature in black ink, appearing to be 'Richard Giza', written in a cursive style.

Richard Giza

Director

Dated this 25th day of March 2011

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 11 to 43, 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 2010 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.



Richard Giza

Director

Dated this 25th day of March 2011

Recoilless Technologies International Corp. Limited ACN 092 154 857 and Controlled Entity

Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2010

		Parent Entity	
		2010	2009
	Note	\$	\$
Other income	2	68,342	116,513
Occupancy expenses		(69,733)	(60,380)
Administrative expenses		(1,532,237)	(1,339,375)
Finance costs		(98,667)	(99,954)
Other expenses		(168,529)	(231,960)
Loss before income tax		(1,800,824)	(1,615,156)
Income tax expense	5	-	-
Loss for the year		(1,800,824)	(1,615,156)
Other comprehensive income		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(1,800,824)	(1,615,153)
Loss attributable to:			
Members of the parent entity		<u>(1,800,824)</u>	<u>(1,615,156)</u>
Total comprehensive income attributable to:			
Members of the parent entity		<u>(1,800,824)</u>	<u>(1,615,156)</u>

The accompanying notes from part of these financial statements.

Recoilless Technologies International Corp. Limited ACN 092 154 857 and Controlled Entity

Statement of Financial Position

As At 30 June 2010

	Note	Parent Entity	
		2010	2009
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	6	4,527	3,557
Tax Receivable		-	27,412
Other current assets	7	84,247	9,661
Total current assets		88,774	40,630
Non-current assets			
Property, plant and equipment	8	285,922	354,601
Intangible assets	9	190,036	190,036
Investments Accounted for Using the Equity Method	18	1,945	-
Total non-current assets		477,903	544,637
TOTAL ASSETS		566,677	585,267
LIABILITIES			
Current liabilities			
Trade and other payables	10	663,453	416,005
Tax payable		12,853	-
Financial liabilities	11	663,081	844,879
Short-term provisions	13	165,755	162,579
Other current liabilities	14	177,083	178,271
Total current liabilities		1,682,225	1,601,734
Non-current liabilities			
Financial liabilities	11	20,089	-
Total non-current liabilities		20,089	-
TOTAL LIABILITIES		1,700,369	1,601,734
NET ASSETS		(1,135,637)	(1,016,467)
EQUITY			
Issued capital	15	10,224,109	9,359,344
Reserves		6,106,415	5,289,526
Accumulated losses		(17,466,161)	(15,665,337)
TOTAL EQUITY		(1,135,637)	(1,016,467)

The accompanying notes form part of these financial statements.

Recoilless Technologies International Corp. Limited ACN 092 154 857 and Controlled Entity

Statement of Changes in Equity

For the Year Ended 30 June 2010

2010

Parent Entity

	Note	Ordinary Shares \$	Accumulated Losses \$	Equity-Settled Employee Benefits Reserve \$	Other Equity-Settled Share-Based Payment Reserve \$	Total \$
Balance at 1 July 2009		9,359,344	(15,665,337)	5,284,976	4,550	(1,016,467)
Shares issued during the year		864,765	-	-	-	864,765
Loss for the year		-	(1,800,824)	-	-	(1,800,824)
Recognition of share-based payments		-	-	816,889	-	816,889
Sub-total		10,224,109	(17,466,161)	6,101,865	4,550	(119,170)
Balance at 30 June 2010		10,224,109	(17,466,161)	6,101,865	4,550	(1,135,637)

The accompanying notes form part of these financial statements.

Recoilless Technologies International Corp. Limited ACN 092 154 857 and Controlled Entity

Statement of Changes in Equity

For the Year Ended 30 June 2010

2009

Parent Entity

	Note	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)

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the Year Ended 30 June 2010

	Note	Parent Entity	
		2010	2009
		\$	\$
Cash from operating activities:			
Government Grants		-	176,182
Payments to suppliers and employees		(639,996)	(972,374)
Interest received		3,721	75
Other receipts		-	2,500
Net cash provided by (used in) operating activities		(636,275)	(793,617)
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(3,106)	(5,287)
Loans to related parties – payments made		(60,760)	-
Payment for intangible assets		-	(1,098)
Purchase of investments		(1,945)	-
Net cash provided by (used in) investing activities		(65,811)	(6,385)
Cash flows from financing activities:			
Proceeds from issue of shares		864,765	503,285
Proceeds from borrowings		145,881	454,084
Repayment of borrowings		(286,657)	(149,111)
Repayment of finance lease liabilities		(12,360)	(13,694)
Net cash provided by financing activities		711,629	794,564
Other activities:			
Net increase (decreases) in cash held		9,543	(5,438)
Cash at beginning of financial year		(5,016)	422
Cash at end of financial year	20 (a)	4,527	(5,016)

Recoilless Technologies International Corp. Limited ACN 092 154 857 and Controlled Entity

Notes to the Financial Statements

For the Year Ended 30 June 2010

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 and controlled entities ('Group') and the separate financial statements and notes of Recoilless Technologies International Corp. Limited as an individual parent entity ('parent entity'). 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 Group 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) Principles of Consolidation

The consolidated financial statements incorporate assets, liabilities and results of entities controlled by Recoilless Technologies International Corp. Limited at the end of the reporting period. A controlled entity is an entity over which Recoilless Technologies International Corp. Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 17 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

The entity has not consolidated the financial statements of the subsidiaries Recoilless Technologies International Poland SP Z.O.O and Recoilless Technologies International SP it acquired during 2010 because it has not yet been able to obtain the audited financial statements of the subsidiaries. Under the Australian Accounting Standards, the subsidiaries should have been consolidated because they are controlled by the entity.

Notes to the Financial Statements

For the Year Ended 30 June 2010

(b) 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 Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) 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.

(d) Property, plant and equipment

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

Notes to the Financial Statements

For the Year Ended 30 June 2010

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.

(e) 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 Group 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.

Notes to the Financial Statements

For the Year Ended 30 June 2010

1 Accounting policies continued

(iii) Impairment

At each reporting date, the Group 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.

(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) Employee benefits

Provision is made for the Group'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.

(h) 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 Group 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) Comparatives

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

Notes to the Financial Statements

For the Year Ended 30 June 2010

1 Accounting policies continued

(k) 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.

(l) Investments in Associates

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

(m) 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).

(n) 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.

(o) Going Concern

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

As at 30 June 2010 the parent entity recorded losses from continuing operations before taxation of \$1,800,824 (2009: \$1,615,156), incurred negative cash flows from operations of \$636,275 (2009: \$793,692) in the financial year, and has a deficiency of current assets over current liabilities at 30 June 2010 of \$1,591,506 (2009: \$1,561,104).

Notes to the Financial Statements

For the Year Ended 30 June 2010

1 Accounting policies continued

(o) 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 Group 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 Group 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 Group'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 Group 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 Group'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 Group's ability to effectively manage their expenditures and cash flows from operations, the directors believe that the Group 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 Group is unable to raise sufficient funds as set out above, there is significant uncertainty whether the Group could continue as a going concern. If the Group 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 Group not continue as a going concern.

(p) Impairment of Assets

At each reporting date, the Group 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.

Notes to the Financial Statements

For the Year Ended 30 June 2010

1 Accounting policies continued

(q) 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 Group 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.

(r) Government Grants

Government grants are assistance by the government in the form of transfers of resources to the parent entity 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 parent entity other than the requirement to operate in certain regions or industry sectors.

Government grants are not recognised until there is reasonable assurance that the parent entity will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the parent entity 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 parent entity with no future related costs are recognised as income of the period in which it becomes receivable.

(s) 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 Group.

(t) 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.

Notes to the Financial Statements

For the Year Ended 30 June 2010

1 Accounting policies continued

(u) 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 Group'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.

(v) Adoption of New and Revised Accounting Standards

During the current year, the Group has adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these Standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these Standards and Interpretations has had on the financial statements of Recoilless Technologies International Corp. Limited.

AASB 3: Business Combinations

In March 2008, the Australian Accounting Standards Board revised AASB 3, and as a result some aspects of business combination accounting have changed.

Recognition and measurement impact

Recognition of acquisition costs — The revised version of AASB 3 requires that all costs associated with a business combination be expensed in the period in which they were incurred. Previously such costs were capitalised as part of the cost of the business combination.

Disclosure impact

The revised AASB 3 contains a number of additional disclosure requirements, not required by the previous version of AASB 3. The revised disclosures are designed to ensure that users of the Group's financial statements are able to understand the nature and financial impact of any business combinations on the financial statements.

Notes to the Financial Statements

For the Year Ended 30 June 2010

1 Accounting policies continued

(v) Adoption of New and Revised Accounting Standards continued

AASB 101: Presentation of Financial Statements

In September 2007, the Australian Accounting Standards Board revised AASB 101, and as a result there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

Disclosure impact

Terminology changes — The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity — The revised AASB 101 requires all changes in equity arising from transactions with owners in their capacity as owners to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income — The revised AASB 101 requires all income and expenses to be presented in either one statement — the statement of comprehensive income, or two statements — a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income.

Other comprehensive income — The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expense that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

(w) New Accounting Standards for Application in Future Periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013). These Standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined any potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and

Notes to the Financial Statements

For the Year Ended 30 June 2010

1 Accounting policies continued

(w) New Accounting Standards for Application in Future Periods continued

- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets;
- and (b) the characteristics of the contractual cash flows.

AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009–5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These Standards detail numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

AASB 2009–8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

This Standard clarifies the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments.

AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

This Standard clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments are not expected to impact the Group.

AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Group.

AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This Standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This Standard is not expected to impact the Group.

AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

Notes to the Financial Statements

For the Year Ended 30 June 2010

1 Accounting policies continued

(w) New Accounting Standards for Application in Future Periods continued

AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing from 1 July 2010).

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably, in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred.

The Group does not anticipate early adoption of any of the above Australian Accounting Standards.

2 Revenue

		Parent Entity	
	Note	2010	2009
		\$	\$
Operating activities			
- interest received		3,721	75
- government grants		64,409	113,938
- other revenue		212	2,500
Total Revenue		<u>68,342</u>	<u>116,513</u>

3 Loss for the Year

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

Depreciation of property, plant and equipment	71,785	75,619
Amortisation of intangible assets	-	16,620
Loss on disposal of property, plant and equipment	-	13,160
Operating lease rental expenses	39,600	39,600
Net foreign exchange loss	8	-
Employee benefit expense		
Defined contributions plan	35,741	55,761
Equity-settled share-based payments	816,889	523,158
Other employee benefits	2,228	10,219

Notes to the Financial Statements

For the Year Ended 30 June 2010

4 Auditors' Remuneration

	Parent Entity	
	2010	2009
	\$	\$
Remuneration of the auditor of the Group for:		
- Auditing or reviewing the financial report	26,500	40,000
- Other services	5,000	-
	<u>31,500</u>	<u>40,000</u>

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:

Prima facie tax payable on profit from ordinary activities before income tax at 30% (2009: 30%)	(540,247)	(484,547)
Add:		
Tax effect of:		
- non-deductible expenses	19,061	16,779
- share options expensed during year	245,067	156,947
- temporary differences	(20,453)	12,095
Benefit of current loss not recognised	<u>296,572</u>	<u>298,726</u>
Total	<u>-</u>	<u>-</u>
Income tax expense	<u>-</u>	<u>-</u>

Deferred tax assets from tax losses - revenue of \$2,349,278 (2009: \$2,052,706) have not been brought to account as assets.

6 Cash and cash equivalents

Cash on hand	171	42
Cash at bank	4,356	3,515
	<u>4,527</u>	<u>3,557</u>

Notes to the Financial Statements

For the Year Ended 30 June 2010

7 Other Assets

	Notes	Parent Entity	
		2010	2009
		\$	\$
CURRENT			
Deposit		-	410
Loan to directors	7a	1,069	-
Loans to subsidiaries	7b	59,692	-
Prepayments		23,486	9,251
		84,247	9,661

a. Loans to directors

Beginning of the year		-	-
Loans advanced		1,068	-
Loan repayment received		-	-
Interest charged		-	-
Interest received		-	-
		1,068	-

b. Loans to subsidiaries

Beginning of the year		-	-
Loans advanced		59,692	-
Loan repayment received		-	-
Interest charged		-	-
Interest received		-	-
		59,692	-

8 Property, plant and equipment

Plant and Equipment			
At cost		399,535	396,429
Less accumulated depreciation		(169,334)	(135,967)
Total capital works in progress		230,201	260,462
Furniture, fixture and fittings			
At cost		54,025	54,025
Less accumulated depreciation		(39,580)	(32,981)
Total furniture, fixture and fittings		14,445	21,044
Motor vehicles			
At cost		71,400	71,400
Less accumulated depreciation		(56,657)	(40,181)
Total motor vehicles		14,743	31,219
Leasehold improvements			
At cost		76,716	76,716
Less accumulated depreciation		(50,183)	(34,840)
Total leasehold improvements		26,533	41,876
Total property, plant and equipment		285,922	354,601

Notes to the Financial Statements

For the Year Ended 30 June 2010

8 Property, plant and equipment continued

(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	260,463	21,043	31,219	41,876	354,601
Additions	3,106	-	-	-	3,107
Depreciation expense	(33,368)	(6,598)	(16,476)	(15,343)	(71,785)
Carrying amount at the end of year	230,201	14,445	14,743	26,533	285,922
Prior 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	260,463	21,043	31,219	41,876	354,601

9 Intangible assets

	Parent Entity	
	2010 \$	2009 \$
Patents and trademarks		
Cost	192,961	192,961
Accumulated amortisation and impairment	(2,925)	(2,925)
Net carrying value	190,036	190,036
Tradewise Credits		
Cost	1,050,000	1,050,000
Accumulated amortisation and impairment	(1,050,000)	(1,050,000)
Net carrying value	-	-
Computer software		
Cost	50,220	50,220
Accumulated amortisation and impairment	(50,220)	(50,220)
Net carrying value	-	-
Total Intangibles	190,036	190,036

Notes to the Financial Statements

For the Year Ended 30 June 2010

9 Intangible assets continued

Reconciliation Detailed Table

	Patents and trademarks \$	Computer software \$	Total \$
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
Year ended 30 June 2010			
Opening balance	190,036	-	190,036
Additions	-	-	-
Amortisation	-	-	-
Balance at 30 June 2010	190,036	-	190,036

10 Trade and other payables

	Parent Entity	
	2010	2009
	\$	\$
CURRENT		
Unsecured Liabilities		
Trade payables	370,834	337,188
Other payables	133,791	78,817
Amounts payable to directors	158,828	-
	663,453	416,005

11 Borrowings

CURRENT

Unsecured liabilities		
Loans from directors	652,105	801,454
	652,105	801,454
Secured liabilities		
Finance lease obligation	10,976	43,425
	10,976	43,425
	663,081	844,879

NON-CURRENT

Secured liabilities		
Finance lease obligation	20,089	-
	20,089	-

(a) Total current and non-current secured liabilities

Finance lease obligations	31,065	43,425
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Notes to the Financial Statements

For the Year Ended 30 June 2010

12 Capital and Leasing Commitments

(a) Finance Lease Commitments

	Parent Entity	
	2010	2009
	\$	\$
Payable - minimum lease payments		
- no later than 12 months	14,211	46,461
- between 12 months and 5 years	24,360	-
Minimum lease payments	38,571	-
Less future finance changes	(7,506)	(3,036)
Present value of minimum lease payments	31,065	43,425

13 Provisions

	Employee entitlements	Total
	\$	\$
Opening balance at 1 July 2009	162,579	162,579
Additional provisions	53,459	53,459
Amounts used	(50,283)	(50,283)
Balance at 30 June 2010	165,755	165,755

14 Other Liabilities

	Parent Entity	
	2010	2009
	\$	\$
CURRENT		
Accruals	177,083	178,271
Total	177,083	178,271

15 Issued Capital

(a) Summary Table

57,563,889 (2009: 56,181,984) Ordinary	10,224,109	9,359,344
26,000,000 (2009: 26,000,000) Preference	-	-
Total	10,224,109	9,359,344

The parent entity has authorised share capital amounting to 70,000,000 of which 12,436,111 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.

Notes to the Financial Statements

For the Year Ended 30 June 2010

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 2010, selected employees have options over 8,991,925 of the parent entity's ordinary shares, of which 7,178,665 vested and the remaining 1,813,260 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 parent entity indicating that the parent entity 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 parent entity indicating that the parent entity 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 2010.

17 Controlled Entities

Controlled Entities Consolidated	Country of Incorporation	Percentage Owned (%)	
		2010	2009
Subsidiaries of Recoilless Technologies International Corp. Limited:			
Recoilless Technologies International Poland SP Z.O.O	Poland	100%	-
Recoilless Technologies International SA	Poland	93.63%	-

18 Investments Accounted for Using the Equity Method

	Parent Entity	
	2010	2009
Investment in subsidiaries	\$ 1,945	\$ -

19 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
Boris Ansons	Non Executive Director
Janeen Cooke	Executive Director

Richard Giza and Joseph Vella held office during and since the end of the financial year.

Company Secretary

- Geoffrey Morgan
- Janeen Cooke

Recoilless Technologies International Corp. Limited ACN 092 154 857 and Controlled Entity

Notes to the Financial Statements

For the Year Ended 30 June 2010

19 Key Management Personnel Compensation continued

(b) Key Management Personnel Compensation

Parent Entity

2010	Short-term benefits				Post employment benefits	Other long-term benefits	Share-based payments		Total	Performance related
	Cash, salary & commissions	Cash profit share	Cash Bonus	Non-cash Benefits	Superannuation	Options	Equity	Options*		%
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Richard Giza	35,769	-	-	-	3,219	-	-	100,000	138,988	-
Joseph Vella	33,653	-	-	-	3,028	-	-	-	36,681	-
Janeen Cooke	7,007	-	-	-	573	-	-	-	7,580	-
Geoffrey Morgan	53,269	-	-	-	4,794	-	-	153,608	211,671	-
	129,698	-	-	-	11,614	-	-	153,608	294,920	-
2009	Short-term benefits				Post employment benefits	Other long-term benefits	Share-based payments		Total	Performance related
	Cash, salary & commissions	Cash profit share	Cash Bonus	Non-cash Benefits	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.

Notes to the Financial Statements

For the Year Ended 30 June 2010

19 Key Management Personnel Compensation continued

(c) Options and Rights Holdings

Number of Options Held by Key Management Personnel

	Balance 01/07/2009	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30/06/2010	Total Vested	Total Exercisable	Total Unexercisable
Janeen Cooke	-	100,000	-	-	100,000	-	-	100,000
Geoffrey Morgan	407,216	153,608	-	-	560,824	-	-	560,824
Total	407,216	253,608	-	-	660,824	-	-	660,824

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 (2009: nil) were exercised by key management personnel. Further details of the Employee Share Option Plan and of share options granted during the 2010 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 2010

19 Key Management Personnel Compensation continued

(d) Shareholdings

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

	Balance 01/07/2009	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/2010
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	116,350	-	-		116,350
Giza Global Group Pty Ltd (i)	20,000,000	-	-		20,000,000
Universal Pressure Vessels Pty Ltd (ii)	3,000,000	-	-		3,000,000
Advanced Propulsion Systems Pty Ltd (iii)	3,000,000	-	-		3,000,000
Vellas Woodturning (iv)	-			1,500	1,500
Velagiza Superannuation Fund (v)	51,000	-	-	-	51,000
	<u>29,922,802</u>	<u>-</u>	<u>-</u>		<u>29,924,302</u>
Fully paid preference shares of Recoilless Technologies International Corp. Limited	-	-	-		-
Giza Global Group Pty Ltd	20,000,000	-	-		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
	<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) Richard Giza and Joseph Vella are exclusive shareholders of Giza Global Group Pty Ltd. At 30 June 2010, Giza Global Group Pty Ltd possesses 20,000,000 ordinary fully paid shares in the parent entity 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

(ii) Richard Giza and Joseph Vella are exclusive shareholders of Universal Pressure Vessels Pty Ltd. At 30 June 2010, Universal Pressure Vessels Pty Ltd possesses 3,000,000 ordinary fully paid shares in the parent entity 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.

(iii) Richard Giza and Joseph Vella are exclusive shareholders of Advanced Propulsion Systems Pty Ltd. At 30 June 2010, Advanced Propulsion Systems Pty Ltd possesses 3,000,000 ordinary fully paid shares in the parent entity 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) As at 30 June 2010, Joseph Vella was the exclusive Shareholder of Vellas Woodturning and possesses 1,500 ordinary fully paid shares in the parent entity. The increase in shareholding represents a purchase of shares made in the parent entity.

(v) Velagiza Superannuation Fund is a self managed superannuation fund with Richard Giza and Joseph Vella joint trustees.

Recoilless Technologies International Corp. Limited

ACN 092 154 857

Notes to the Financial Statements

For the Year Ended 30 June 2010

20 Cash Flow Information

(a) Reconciliation of Cash and Cash Equivalents

	Parent Entity	
	2010	2009
	\$	\$
Cash and cash equivalents	4,527	3,557
Bank overdraft	-	(8,573)
Non-cash flows in profit	<u>4,527</u>	<u>(5,016)</u>

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

Net loss for the period	(1,800,824)	(1,615,156)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit		
Amortisation	-	16,620
Depreciation	71,785	75,619
Foreign exchange (gain)/loss	8	-
Equity-settled share-based payment	816,889	523,158
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	13,586	69,247
Increase in trade payables and accruals	249,428	58,065
Increase/(decrease) in provisions	12,853	65,595
	<u>(636,275)</u>	<u>(793,692)</u>

21 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 parent entity are detailed as follows:

Notes to the Financial Statements

For the Year Ended 30 June 2010

21 Financial Instruments continued

(c) Interest Rate Risk

Parent Entity

2010	Weighted Average Effective Interest Rate %	Fixed Interest Rate \$	Non-interest bearing \$	Total \$
Financial Assets:				
Cash and cash equivalents		-	4,527	4,527
Receivables		-	84,247	84,247
Total Financial Assets		-	88,774	88,774
Financial Liabilities:				
Loan - Unsecured	12.8	650,160	-	650,160
Trade and sundry payables		-	840,536	840,536
Employee Benefits		-	165,755	165,755
Lease liabilities	12.5	31,065	-	31,065
Total Financial Liabilities		681,225	1,006,291	1,687,516

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

Notes to the Financial Statements

For the Year Ended 30 June 2010

22 Share-based payments

Employee share option plan

The following share-based payment arrangements existed at 30 June 2010:

The parent entity has an ownership-based compensation scheme for selected employees of the parent entity. 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 parent entity 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 parent entity.

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

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

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

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

They are vested subject to the employee remaining employed with the parent entity 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 (2009: \$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.

Notes to the Financial Statements

For the Year Ended 30 June 2010

22 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 parent entity 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:

	2010		2009	
	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

23 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;

(iv) 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;

Notes to the Financial Statements

For the Year Ended 30 June 2010

23 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 Miss Janeen Cooke are Directors of Recoilless Technologies International (Singapore) together with a local Director.

(ix) 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. In order for RTICL 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 RTICL with the freedom to enter into Joint Research and Development contracts within Poland. Mr Richard Giza is a Director of Recoilless Technologies International S.A.

(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 \$277. (2009: \$212).

(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 \$482. (2009: \$547).

(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, ASIC fees and outgoings including utilities, rates and body corporate fees charged at normal commercial rates. The total expense in this regard amounts to \$51,906 (2009: \$51,906) during the financial year comprising \$39,600 rent, \$482 ASIC fees and \$15,512.14 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 \$831 (2009: \$1,241). Advanced Propulsion Systems Pty Ltd and Universal Pressure Vessels Pty Ltd have a Shareholding in Recoilless Technologies International Corp. Limited.

Notes to the Financial Statements

For the Year Ended 30 June 2010

23 Related Party Transactions continued

(b) Transactions involving other related parties continued

(vi) RTICL loans funds to Recoilless Technologies International S.A. to assist with its operating until such time as this entity is financially self sufficient. During the year, the total loan provided was \$14,952 and will be repaid to RTICL when Recoilless Technologies International S.A. can afford to do so.

(vii) RTICL loans funds to Recoilless Technologies International (Poland). to assist with its operating until such time as this entity is financially self sufficient. During the year, the total loan provided was \$44,740 and will be repaid to RTICL when Recoilless Technologies International (Poland). can afford to do so.

24 Subsequent Events

- (i) Recoilless Technologies International Corp. Limited received \$457,786.11 cash after year end from investors and 761,505 ordinary shares were issued in exchange for these investment funds
- (ii) Recoilless Technologies International Corp. Limited issued 227,833 ordinary shares for nil consideration to individuals who assisted the company and elected not to be financially remunerated.
- (iii) RTICL successfully applied for an Export Marketing and Development Grant (EMDG) to claim a rebate on international marketing expenditure. A total claim of \$112,269 was submitted of which the total rebate will be \$52,669 but this will be reduced as the EMDG grant is under funded. An amount of \$27,500 was received by RTICL in December 2010 and the remaining will be proportioned to the balance of the grant pool in June 2011.
- (iii) On 13 October 2010, a detailed Research and Development Agreement was signed between RTICL and a Research and Development Centre in Tarnow, Poland (OBR SM), to create a Concept Technology Demonstration (CTD) to incorporate the Recoilless Technology into a 7.62mm NATO round ALEX sniper rifle.
- (iv) On 28 October 2010, RTICL signed a letter of intent with WZINZ, Deblin, Poland with the aim at involved WZINZ in various R&D projects, especially pertaining to the projects in large calibre where WZINZ would be a supplier of components and parts or even the whole weaponry needed for phase I and phase II of project development. There is also heavy interest from WZINZ to be involved in mass production when phase II of the R&D projects is reached. WZINZ Deblin is a Military Engineering Works entity that specialises in the repair and production of technical equipment for the Polish Armed Forces.
- (iv) RTICL and Bumar signed a Letter of Intent on 5 November 2010 that outlines the intent for RTICL and Bumar to sign an Agency Agreement which will allow RTICL to act as that company's agent in the Australasian region, focusing on marketing the various products that are manufactured by the Bumar Group. The Bumar Group of companies, 27 at present, produce and market a wide range of products from bullet proof vests, police batons, helmets and military grade gloves, to small arms, sniper rifles, grenade launchers, various military vehicles, rockets/missiles, a whole spectrum of ammunition and explosives and battle tanks.
- (vi) On 30 November 2010, a Letter of Intent was signed between RTICL and Vellas World Trading with the intent to commercialise the Recoilless Technology through licensing and establishing commercial relationships with selected manufacturers within various industries and markets.

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

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 ACN 092 154 857 and Controlled Entity

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 2010 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 25 MAR 2011
Level 16, 499 St Kilda Road
Melbourne VIC 3004