



RECOILLESS TECHNOLOGIES INTERNATIONAL CORP. LIMITED

XXI Century Pioneer of Recoilless Technologies

ACN 092 154 857

**NOTICE OF ANNUAL GENERAL MEETING
AND EXPLANATORY STATEMENT**

Annual General Meeting to be held at The Hemisphere Conference Centre & Hotel,
488 South Road, Moorabbin, Victoria, Australia on 18 January 2008 commencing at
6.00pm.

This Notice of Annual General Meeting and Explanatory Statement must be read in its
entirety. If Shareholders are in doubt as to how they should vote, they should seek
advice from their accountant, solicitor or other professional adviser without delay.

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2007 ANNUAL GENERAL MEETING

The 2007 Annual General Meeting of Recoilless Technologies International Corp. Limited (ACN 092 154 857) will be held at The Hemisphere Conference Centre & Hotel, 488 South Road, Moorabbin, Victoria, Australia on Friday 18 January 2008 commencing at 6.00pm. Shareholders of Recoilless Technologies International Corp. Limited are invited to arrive at 6.00pm and be seated to enable proceedings to commence promptly at 6.30pm.

ORDINARY BUSINESS

Ordinary Business Item 1 – Financial Report

To receive and consider the Financial Report for the year ending 30 June 2007 incorporating the Independent Audit Report.

Refer to Annexure A of the Explanatory Statement.

Ordinary Business Item 2 – Directors' Review

To receive and consider the Directors' Review for the year ending 30 June 2007 and to date.

Refer to Annexure B of the Explanatory Statement.

SPECIAL RESOLUTIONS

Special Resolution 1 – Appointment of Auditor

To consider and if thought fit, pass the following special resolution:-

“That Deloitte Touche Tohmatsu be appointed the Audit firm for RTI in replacement of BDO Chartered Accountants and Advisors as a result of the merge between the two entities effective 14 August 2006.”

Refer to Annexure C of the Explanatory Statement.

Special Resolution 2 – Remuneration of Auditor

To consider and if thought fit, pass the following special resolution:-

“That Deloitte Touche Tohmatsu be remunerated an amount of \$20,000 plus GST for the financial year end audit including reviewing the accounts.”

Special Resolution 3 – Authorised Capital

To consider and if thought fit, pass the following special resolution:-

“That the Board of RTI be authorised to issue up to 70 million ordinary shares in the capital of RTI and that the Constitution be amended accordingly to reflect the increase from 58 million authorised shares to 70 million authorised shares.”

Refer to Annexure D of the Explanatory Statement.



ORDINARY RESOLUTIONS

Ordinary Resolution 1 - Election of Director: Mr Richard Giza

To consider and if thought fit, pass the following as an Ordinary Resolution:-

“That Mr Richard Giza who retires as a Director in accordance with Clause 67 of the Company’s Constitution, be re-elected as a Director in accordance with Clause 70 of the Company’s Constitution. “

Refer to Annexure E of the Explanatory Statement.

Ordinary Resolution 2 - Election of Director: Mr Joseph Vella

To consider and if thought fit, pass the following as an Ordinary Resolution:-

“That Mr Joseph Vella who retires as a Director in accordance with Clause 67 of the Company’s Constitution, be re-elected as a Director in accordance with Clause 70 of the Company’s Constitution. “

Refer to Annexure F of the Explanatory Statement.

Ordinary Resolution 3 - Election of Director: Mr Geoffrey Morgan

To consider and if thought fit, pass the following as an Ordinary Resolution:-

“That Mr Geoffrey Morgan who retires as a Director in accordance with Clause 67 of the Company’s Constitution, be re-elected as a Director in accordance with Clause 70 of the Company’s Constitution. “

Refer to Annexure G of the Explanatory Statement.

Ordinary Resolution 4 - Election of Director: Mr Adam Vella

To consider and if thought fit, pass the following as an Ordinary Resolution:-

“That Mr Adam Vella who retires as a Director in accordance with Clause 67 of the Company’s Constitution, be re-elected as a Director in accordance with Clause 70 of the Company’s Constitution. “

Refer to Annexure H of the Explanatory Statement.

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EXPLANATORY STATEMENT

This Explanatory Statement forms part of this notice of Annual General Meeting and must be read in conjunction with it by Shareholders.

PROXIES

Please note that:

- (a) a Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy;
- (b) a proxy need not be a member of Recoilless Technologies International Corp. Limited; and
- (c) Shareholders entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

A loose leaf proxy form has been included with the notice of Annual General Meeting and provides further details on appointing proxies and lodging proxy forms. For a proxy form to be effective, it must be received by Recoilless Technologies International Corp. Limited by close of business **Wednesday 16 January 2008**:

in person at the Company's registered office:

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

by mail:

The Company Secretary
Recoilless Technologies
International Corp. Limited
PO Box 4406
Dandenong South VIC 3164
Australia

or by facsimile to the Company Secretary on +61 3 9769 1606.

VOTING ENTITLEMENTS

In accordance with Regulation 7.11.37 of the Corporations Regulations 2001, the Board has determined that a person's entitlement to vote at the Annual General Meeting will be the entitlement of that person as set out in the register of Shareholders as at **5.00pm AEDT 16 January 2008**. Accordingly, transactions registered and proxy forms received after that time will be disregarded in determining Shareholders' entitlements to attend and vote at the Annual General Meeting.

QUESTIONS FOR THE AUDITOR

A loose leaf form has been included with the notice of Annual General Meeting for Shareholders to outline questions they have for the Auditor. In order for questions to be



addressed by the Auditor at the Annual General Meeting, and at the Auditors request, all questions must be received by Recoilless Technologies International Corp. Limited by close of business **Friday 11 January 2008**. A reply paid envelope has been included to assist with this process.

QUESTIONS FOR THE BOARD

A loose leaf form has been included with the notice of Annual General Meeting for Shareholders to outline questions they have for the Board of Recoilless Technologies International Corp. Limited. To assist with an efficient question and answer period following formalities at the Annual General Meeting, it would be appreciated if all questions to be addressed by the Board at the Annual General Meeting are received by Recoilless Technologies International Corp. Limited by close of business **Friday 11 January 2008**. A reply paid envelope has been included to assist with this process.

By Order of the Board

A handwritten signature in black ink, appearing to read "G. Morgan". The signature is fluid and cursive, written over a blank space.

Geoffrey Morgan
Company Secretary
17 December 2007

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ORDINARY BUSINESS

Annexure A – Ordinary Business Item 1 ‘Financial Report’

**RECOILLESS
TECHNOLOGIES
INTERNATIONAL CORP.
LIMITED**

ACN 092 154 857

Annual Financial Report for the Financial Year Ended 30 June 2007



Annual financial report for the financial year ended 30 June 2007

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Directors' report

The directors of Recoilless Technologies International Corp. Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2007. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the directors of the company during or since the end of the financial year are:

Name	Particulars
<p>Richard Giza Chairman, Managing Director & Chief Technology Architect</p>	<p>Mr Giza, founder of RTI, has responsibility for research and development, technology, architecture and engineering in addition to maintaining RTI'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 RTI may encounter and lead the company into a very exciting future and new innovative areas of technological advancement.</p>
<p>Joseph Vella Executive Director & Technology Trustee</p>	<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 RTI, 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 RTI has been fundraising, which to date has been very successful. His motivation is a testament to his belief in RTI 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>
<p>Mark Darras Non Executive Director</p>	<p>Prior to joining RTI, Mr Darras was a practising lawyer and has also been a strategy executive with Goodman Fielder Limited and a Government Ministerial Adviser.</p> <p>Mr Darras has strong links with both the private and public sector. Mr Darras has degrees in law, arts and education and although he does not practice in the law, Mr Darras is still retained by his former law firm.</p>
<p>John W Murray Non Executive Director</p>	<p>Mr Murray has over 15 years listed company experience as a senior manager with the National Australia Bank. He is Chairman of two National Australia Bank subsidiary company Boards. He was a Director of the Australian Compliance Institute from 2001 to 2006 and is a Fellow of the Australian Institute of Company Directors, Fellow of the Institute of Legal Executives, Associate of the Victorian Law Institute and Associate Fellow of the Australian Institute of Management.</p> <p>Mr Murray brings extensive blue chip listed corporate experience to RTI.</p>
<p>Adam J Vella Non Executive Director</p>	<p>Mr Vella is a member of the Australian and Olympic Clay Target Shooting Team. His successes include an Olympic Bronze (Athens), Commonwealth Games Gold and Silver (Manchester), Commonwealth Games Gold (Melbourne), and many World titles. He is also the only shooter that has been ranked number one in the world in two disciplines at the same time.</p> <p>Since 1996 Mr Vella has been managing his own plumbing business servicing commercial properties in the petroleum industry in the Melbourne metropolitan area. Between 1996 and 2000, Mr Vella was an Executive Director of McIntyre Target Products Pty. Ltd. and Rio Oceania Pty. Ltd. Both businesses imported and distributed clay targets and ammunition Australia wide. Mr Vella's associations and successes have brought invaluable national and international media attention for RTI and have also facilitated the development of relationships with gun manufacturers and suppliers worldwide making him a vital liaison for RTI.</p>
<p>Peter Dunn Executive Director, and Chief Executive Officer</p>	<p>Major General Dunn was the inaugural Commissioner of the ACT Emergency Services Authority that was formed after the disastrous fires that devastated large parts of Canberra in January 2003. The Authority comprised Urban Fire Brigade, Rural Fire Brigade, Ambulance Service and the State Emergency Service and Emergency Management specialists. Prior to this appointment Major General Dunn worked in the Department of Defence and was responsible for major corporate supply chain information systems. Immediately prior to his appointment, Major General Dunn served in the Australian Army.</p> <p>In senior military appointments, Major General Dunn was engaged in major change management roles.</p>



Major General Dunn is currently active as a Director on a number of Boards in the public sector. He provides essential input into business development activities and extensive institutional liaison necessary for RTI's compliance with government requirements for commercialisation.

Les Targ
Non Executive Director

Mr Targ has over 25 years of senior management experience as a company director, CEO and senior executive. He is currently Deputy CEO of Australian Wool Innovation Limited where he is responsible for developing and implementing the AWI corporate services of legal, contracting, IP management, company secretarial and human resources.

Prior to joining AWI, Mr Targ held senior executive positions, including CEO, in the Australian Defence and Aerospace Industries, including ten years with ADI Limited, a high technology defence systems and engineering company. At ADI Mr Targ managed the international business group and had responsibility for international sales and marketing as well as developing industry alliances.

Mr Targ is also the Chairman of RTI's Audit and Risk Committee and is an essential member of the business development team and provides input for business development activities, including initiating and guiding the formulation of commercialisation strategies.

Douglas Kelley
Non Executive Director

Mr Kelley is a well respected trial attorney who has been involved in a number of high profile cases. He is the Managing Partner of the firm Kelley & Wolter in Minneapolis, Minnesota, USA.

Mr Kelley possesses substantial military and political experience, having served as a member of the US Army Special Forces and Chief of Staff to the Chairman of the US Senate Select Committee on Intelligence. As a senior member of the Republican Party, Mr Kelley was also a candidate for Governor of Minnesota.

Mr Kelley is a key link in developing relationships between RTI and defence companies in the USA.

Stephen Ayling
Non Executive Director

Brigadier Ayling brings the benefits of an extensive military and security background to the Board of RTI. His expertise and experience has reinforced the importance of thorough teamwork, planning, evaluation and coordination. Brigadier Ayling completed a successful 30 year career in the Australian Army and retired in 2002. On retirement Brigadier Ayling established his own company and worked with a variety of organisations and industry sectors as a consultant, and was the Assistant Commissioner (Emergency Management) in the ACT Emergency Services Authority until July 2006.

Brigadier Ayling is also the Chairman of RTI's Remuneration Committee and a member of RTI's Audit and Finance Committee. His expertise within the corporate, business and workplace levels will support this new and exciting endeavour.

Geoffrey Morgan
Executive Director & Chief
Operations Officer

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

Stephen McArthur
Non Executive Director &
Vice Chairman

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

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

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

- Mark Darras (resigned 12 February 2007)
- John W Murray (resigned 9 March 2007)
- Peter Dunn (resigned 9 March 2007)
- Les Targ (resigned 8 March 2007)



- Douglas Kelley (resigned 28 March 2007)
- Stephen Ayling (resigned 8 March 2007)
- Geoffrey Morgan (appointed 13 March 2007)
- Stephen McArthur (appointed 19 April 2007, resigned 5 December 2007)

Company secretary

- Getha Somasundaram (resigned 4 October 2006)
- John Murray (resigned (resigned 9 March 2007)
- Richard Giza (resigned 28 March 2007)
- Phillip England (resigned 10 October 2007)
- Geoffrey Morgan

Principal activities

The principal activity of RTI during the period was the further development of the Recoilless Technology with the intention of adapting this technology to any conventional ballistic weapons and other commercial applications.

Review of operations

The following is a summary of the significant events and discussions that have transpired since RTI's last Annual General Meeting held on 17 November 2006:

- a) Overview of the business during 06/07 financial year:
- Successful fundraising through public Prospectus;
 - Restructuring of the RTI Board;
 - Operational changes and primary focus on Research and Development activities and further technology improvement;
 - Further technology advancements and demonstrations;
 - Further granting of patents and preparations for additional patent applications;
 - Receipt of funding from an Export Marketing and Development Grant application;
 - Negotiations for the establishment of a strategic partnership;
 - Negotiations and basic preparations for a stock exchange listing;
 - Preliminary preparations for establishing additional RTI subsidiaries;
 - Signing of a Letter of Intent with Huta Stalowa Wola S.A. (Poland);
 - Preliminary preparations and negotiations for the purchase of a metal fabrication company; and
 - Preparations and negotiations for the provision of weapons by an Arms Company for concept demonstration .

b) Review of operations:

RTI made \$5,888,862 losses in 2007 financial year (2006: \$3,353,262). Included in the total expenses, there is \$4,268,250 non-cash expenses relating to Employee Share Option Plan. RTI issued share options to selected employees and directors during 2007, and the value of the options need to be expensed over the vesting period.

c) Further development

In the following year, RTI will be dedicated to the patent commercialising process.

Changes in state of affairs

There was no significant change in the state of affairs of the company during the financial year.

Subsequent events

1) To facilitate its business in New Zealand, Recoilless Technologies International Corp. Ltd. set up a New Zealand subsidiary, Recoilless Technologies International (New Zealand) Limited on 22 November 2007. No capital has yet been injected into this subsidiary.

2) Recoilless Technologies International Corp. Ltd. received \$43,635 government grants after year end to support its business activities overseas.

3) Recoilless Technologies International Corp. Ltd. received \$265,000 cash after year end from investors.

4) Recoilless Technologies International Corp. Ltd. issued 466,334 ordinary shares to Jadecoast Pty Ltd on 27 November 2007 in exchange for \$345,730 worth of services provided by Bendtech Pty Ltd during 2005 through to 2007.

5) On 9 October 2007, Adam J Vella, Director of RTI, gave notice to is fellow directors that he will be unavailable to act as an Director due to his Olympic commitments. He appointed Joseph Vella as his Alternate effective 6 August 2007 until such time as notice is given to the Directors of the removal of Joseph Vella as Adam J Vella's Alternate or Joseph Vella



gives notice of his resignation.

Future developments

Disclosure of information regarding likely developments in the operations of the company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the company. Accordingly, this information has not been disclosed in this report.

Environmental regulations

No environmental regulations apply to the Company.

Dividends

No dividends were paid out during 2007. (2006: Nil)

Share options

Share options granted to directors and executives

During and since the end of the financial year an aggregate 5,787,907 share options were granted to the following directors and executives of the company as part of their remuneration:

Directors and executives	Number of options granted	Issuing entity	Number of ordinary shares under option
Directors			
Stephen McArthur	550,000	RTI	550,000
Geoff Morgan	791,236	RTI	791,236
Peter Dunn	330,519	RTI	330,519
Stephen Ayling	441,134	RTI	441,134
John Murray	614,971	RTI	614,971
Mark Darras	433,909	RTI	433,909
Adam Vella	1,010,627	RTI	1,010,627
Les Targ	200,000	RTI	200,000
Executives			
Getha Somasundaram	278,781	RTI	278,781
Horace Lim	580,000	RTI	580,000
Peter Wolff	161,112	RTI	161,112
Phillip England*	395,618	RTI	395,618

* Upon resignation Phillip England requested that the 50,000 options issued to him be cancelled and therefore at the date of this report he retains no option entitlements in RTI.

Shares under option or issued on exercise of options

Details of unissued shares or interests under option as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of each option	Expiry date of options
RTI	7,827,424	Ordinary	\$0.01	5 years from issue*

* Although the Options may be exercised at any time after thirty six months from issue up until the expiry date, RTI may issue a written notice to the Optionholders indicating that the company has determined to apply to the Australian Securities Exchange (ASX) to be listed on the ASX and request that the Optionholders must exercise their options by a prescribed date failing which any Options which are not exercised shall lapse.

During the 30 June 2007 financial year, no options have been exercised.

Indemnification of officers and auditors

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee



member). During the financial year, 6 board meetings and 2 remuneration committee meetings were held. During the financial year although an audit and risk committee was established, no meetings took place.

Directors	Board Meetings		Remuneration Committee	
	Held	Attended	Held	Attended
Richard Giza	6	6	2	2
Joseph Vella	6	6	2	2
Mark Darras	5	4	-	-
John W Murray	5	5	-	-
Adam J Vella	6	6	-	-
Peter Dunn	3	2	-	-
Les Targ	5	5	-	-
Douglas Kelley	5	2	-	-
Stephen Ayling	5	5	2	2
Geoffrey Morgan	1	1	-	-
Stephen McArthur	1	1	-	-

Proceedings on behalf of the company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Auditor’s independence declaration

The auditor’s independence declaration is included on page 7 of the annual report.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Richard Giza
 Director
 Melbourne, 17 December 2007



DTT Victoria

DTT Victoria

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Auditor's Independence Declaration

The Board of Directors
Recoilless Technologies International Corp. Limited
18/595 Chandler Road
Keysborough VIC 3173

Dear Board Members

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Recoilless Technologies International Corp. Limited .

As the lead audit partner for the audit of the financial statements of Recoilless Technologies International Corp. Limited for the financial year ended 30 June 2007, I declare to the best of my knowledge and belief that there have been no contraventions of:

- (i) the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DTT Victoria

DTT Victoria

C M J Bryan
Partner
Chartered Accountants

Melbourne, 17 December 2007

Liability limited by a scheme approved under Professional Standards Legislation.
DTT Victoria has changed its name from BDO and is a continuation of that Victorian partnership. The partners of DTT Victoria have also joined the Australian partnership of Deloitte Touche Tohmatsu.
All changes with effect from 14 August 2006.



DTT Victoria

DTT Victoria

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Independent Auditor's Report to the Members of Recoilless Technologies International Corp. Limited

We have audited the accompanying financial report of Recoilless Technologies International Corp. Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration as set out on pages 10 to 42.

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 establishing 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. In Note 3, the directors also state, in accordance with Accounting Standards AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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.

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All changes with effect from 14 August 2006.



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

Auditor's Independence Declaration

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

Auditor's Opinion

(a) In our opinion:

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

- (i) giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 3.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 3 (a) in the financial report which indicates that the company incurred a net loss of \$5,888,862 during the year ended 30 June 2007 and, as of that date, the company's current liabilities exceeded its current assets by \$335,863. These conditions, along with other matters as set forth in Note 3 (a) 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.

DTT Victoria

DTT Victoria

A handwritten signature in black ink, appearing to read 'C M J Bryan', with a long horizontal flourish extending to the right.

C M J Bryan
Partner
Chartered Accountants

Melbourne, 17 December 2007



Directors' declaration

The directors declare that:

- (a) 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;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

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

Richard Giza

Director

Melbourne, 17 December 2007



**Income statement
for the financial year ended 30 June 2007**

	Note	2007 \$	2006 \$
Interest revenue	6	7,532	11,186
R & D tax offset	6	271,182	181,583
Other income	6	92,315	-
Total Revenue and other income		371,029	192,769
Occupancy expenses		(42,030)	(456,092)
Administration expenses		(6,177,981)	(1,946,631)
Finance costs	7	(20,211)	(91,538)
Other expenses		(19,669)	(1,770)
Impairment of assets	8	-	(1,050,000)
Loss before income tax expense	8	(5,888,862)	(3,353,262)
Income tax expense	9	-	-
Loss from continuing operations		(5,888,862)	(3,353,262)
Loss for the year		(5,888,862)	(3,353,262)
Loss attributable to members of the company		(5,888,862)	(3,353,262)
Earnings per share	20		
Basic (cents per share)		(11.27)	(6.89)
Diluted (cents per share)		(11.27)	(6.89)

Notes to the financial statements are included on pages 15 to 42.



Balance Sheet as at 30 June 2007

	Note	2007 \$	2006 \$
Current assets			
Cash and cash equivalents	24	22,329	286,469
Other receivables	10	138,381	66,727
Prepayments	11	22,624	23,710
Total current assets		183,334	376,906
Non-current assets			
Property, plant and equipment	12	594,658	92,845
Intangible assets	13	209,047	225,786
Total non-current assets		803,705	318,631
Total assets		987,039	695,538
Current liabilities			
Trade and other payables	14	394,341	366,426
Borrowings	15	22,712	202,121
Provisions	16	102,144	221,481
Total current liabilities		519,197	790,028
Non-current liabilities			
Borrowings	15	60,453	-
Total non-current liabilities		60,453	-
Total liabilities		579,650	790,028
Net asset/(deficiency)		407,389	(94,490)
Equity			
Issued capital	17	8,168,330	6,091,488
Reserves	18	4,751,399	437,500
Accumulated losses	19	(12,512,340)	(6,623,478)
Total equity/(deficiency)		407,389	(94,490)

Notes to the financial statements are included on pages 15 to 42.



Statement of changes in equity for the financial year ended 30 June 2007

	Note	Full paid ordinary shares	Equity- settled employee benefits reserve	Other equity- settled share-based payment reserve*	Accumulated losses	Total
		\$	\$	\$	\$	\$
Balance at 1 July 2005		2,654,206	-	-	(3,270,216)	(616,010)
Loss for the year		-	-	-	(3,353,262)	(3,353,262)
Total recognised income and expense		-	-	-	(3,353,262)	(3,353,262)
Fully paid ordinary shares issued		3,437,282	-	-	-	3,437,282
Preference shares		-	-	-	-	-
Recognition of share-based payments		-	-	437,500	-	437,500
Balance at 30 June 2006		6,091,488	-	437,500	(6,623,478)	(94,490)
Loss for the year		-	-	-	(5,888,862)	(5,888,862)
Total recognised income and expense		-	-	-	(5,888,862)	(5,888,862)
Fully paid ordinary shares issued	17	1,914,010	-	-	-	1,914,010
Recognition of share-based payments		-	4,268,250	208,481	-	4,476,731
Transfer from Other equity-settled share-based payment reserve	17	162,832	-	(162,832)	-	-
Balance at 30 June 2007		8,168,330	4,268,250	483,149	(12,512,340)	407,389

* The other equity-settled share based payment reserve arises on the transactions accounted for as a share-based payment arrangements other than equity-settled employee benefits transactions. (see Note 18). The amount will be transferred to issued share capital when the shares are eventually issued.

Notes to the financial statements are included on pages 15 to 42.



Cash flow statement for the financial year ended 30 June 07

	Note	2007 \$	2006 \$
Cash flows from operating activities			
R & D tax offset		271,182	126,088
Other receipts from operating activities		21,747	62,289
Payments to suppliers and employees		(2,157,295)	(2,062,383)
Net cash provided by/(used in) operating activities	24 (c)	(1,864,366)	(1,874,006)
Cash flows from investing activities			
Interest received		7,532	11,364
Payment for property, plant and equipment		(38,542)	(38,307)
Payment for intangible assets		-	(18,128)
Net cash (used in)/provided by investing activities		(31,010)	(45,071)
Cash flows from financing activities			
Proceeds from issue of equity securities		1,841,927	2,372,382
Proceeds from borrowings		-	617,631
Repayment of finance lease liabilities		(13,328)	-
Repayment of borrowings		(197,363)	(832,906)
Net cash provided by financing activities		1,631,236	2,157,107
Net increase/(decrease) in cash and cash equivalents		(264,140)	238,030
Cash and cash equivalents at the beginning of the financial year		286,469	48,439
Cash and cash equivalents at the end of the financial year	24 (a)	22,329	286,469

Notes to the financial statements are included on pages 15 to 42.



**Notes to the financial statements
for the financial year ended 30 June 07**

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1. General information

Recoilless Technologies International Corp. Limited (the company) is a public unlisted company, incorporated in Australia and operating in Australia.

Recoilless Technologies International Corp. Limited's registered office and its principal place of business are as follows:

Registered office

18/595-599 Chandler Road
Keysborough VIC 3173

Principal place of business

18/595-599 Chandler Road
Keysborough VIC 3173

2. Adoption of new and revised Accounting Standards

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue	1 January 2007	30 June 2008
• AASB 101 'Presentation of Financial Statements' – revised standard	1 January 2007	30 June 2008
• AASB 2007-7 'Amendments to Australian Accounting Standards'	1 July 2007	30 June 2008
• AASB 8 'Operating Segments' and consequential amendments to other accounting standards resulting from its issue	1 January 2009	30 June 2010
• AASB 101 Presentation of Financial Statement (revised)	1 January 2009	30 June 2010
• AASB 2007-8 - Amendments to Australian Accounting Standards arising from AASB 101 - September 2007	1 January 2009	30 June 2010

Initial application of the following Standards and Interpretations is not expected to have any material impact to the financial report of the consolidated entity and the company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB Interpretation 10 'Interim Financial Reporting and Impairment'	1 November 2006	30 June 2008
• AASB Interpretation 11 'AASB 2 – Group and Treasury Share Transactions'	1 March 2007	30 June 2008
• AASB 2007-1 'Amendments to Australian Accounting Standards arising from AASB Interpretation 11'	1 March 2007	30 June 2008
• AASB Interpretation 12 'Service Concession Arrangements'	1 January 2008	30 June 2009
• AASB 2007-2 'Amendments to Australian Accounting Standards arising from AASB Interpretation 12'	1 January 2008	30 June 2009
• AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments'	1 July 2007	30 June 2008
• AASB Interpretation 13 'Customer Loyalty Programmes'	1 July 2008	30 June 2009
• AASB Interpretation 14 'AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	1 January 2008	30 June 2009
• AASB 123 'Borrowing Costs' – revised standard	1 January 2009	30 June 2010
• AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	30 June 2010



3. Significant accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 17 December 2007.

Basis of preparation

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Going Concern

the Company is involved in significant development activity and as such expects to be cash absorbing until its patents are commercialised. As at 30 June 2007 the Company recorded losses from continuing operations before taxation of \$5,888,862 (2006: \$3,353,262), incurred negative cash flows from operations of \$1,864,366 (2006: \$1,874,006) in the financial year, and has a deficiency of current assets over current liabilities at 30 June 2007 of \$335,863 (2006: \$413,122).

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

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

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

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

- During its lifetime, the Company has been able to attract funds to support its research and development;
- Institutional investors will come in;
- Directors are willing to financially support the Company's operations as before;
- Discussion with a potential weapon manufacturer is ongoing, and directors expect a positive outcome will be achieved.

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

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

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



3. Significant accounting policies (cont'd)

(b) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready 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 profit or loss in the period in which they are incurred.

(c) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(d) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(e) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements. Other financial assets are classified as 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

(f) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.



3. Significant accounting policies (cont'd)

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(g) Foreign currency

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

(h) Government grants

Government grants are assistance by the government in the form of transfers of resources to the Company in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Company other than the requirement to operate in certain regions or industry sectors.

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

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

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

(i) Impairment of other tangible and intangible assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been



3. Significant accounting policies (cont'd)

recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(k) Intangible assets

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

1. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
2. the intention to complete the intangible asset and use or sell it;
3. the ability to use or sell the intangible asset;
4. how the intangible asset will generate probable future economic benefits;
5. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
6. the ability to measure reliably the expenditure attributable to the intangible asset during its development.



3. Significant accounting policies (cont'd)

(l) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Company as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. (Refer to note 3(b)). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(m) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

(n) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(o) Revenue

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.



3. Significant accounting policies (cont'd)

(p) 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 26.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

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

(q) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. Business and geographical segments

The primary business activities of the Company consist of only one business segment, i.e. the development of the Recoilless Technology with the intention of adopting this technology to any conventional ballistic weapons and other commercial applications. The primary business activities are currently conducted in Australia.

6. Revenue and other income

An analysis of the Company's revenue and other income for the year is as follows:

	2007	2006
	\$	\$
Interest revenue:		
Bank deposits	7,532	11,186
Research & Development tax offset	271,182	181,583
Other income		
Directors forgiveness of the amount payable to them	92,315	-
	<u>371,029</u>	<u>192,769</u>

7. Finance costs

	2007	2006
	\$	\$
Interest on loans	12,615	89,986
Interest on obligations under finance leases	4,680	-
Others	2,916	1,552
	<u>20,211</u>	<u>91,538</u>



8. Loss for the year

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

	2007	2006
	\$	\$
Net foreign exchange gains	(6,477)	-
Depreciation of non-current assets	38,369	16,841
Amortisation of non-current assets	16,740	120
Research and development costs immediately expensed	921,958	1,027,070
Operating lease rental expenses:		
Minimum lease payments (including equity-settled lease expense -\$92,922 in 2007 (2006: \$437,500))	42,030	456,092
Impairment of Intangibles (note 13)	-	1,050,000
Employee benefit expense:		
- Post employment benefits:		
Defined contribution plans	87,215	73,401
- Share-based payments:		
Equity-settled share-based payments	4,268,250	-
- Other employee benefits	888,336	831,490
	<u>5,243,801</u>	<u>904,891</u>

9. Income taxes

	2007	2006
	\$	\$
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Loss from operations	(5,888,862)	(3,353,262)
Prima facie income tax payable /(benefit) on profit /(loss) from ordinary activities before income tax at 30%	(1,766,659)	(1,005,979)
Add:		
Tax effect of:		
Non-deductible impairment loss	-	315,000
Non-deductible share options expense	1,280,475	-
Benefit of current loss not recognised	486,183	690,979
Income tax expense/(income)	<u>-</u>	<u>-</u>

Unrecognised deferred tax balances

The following deferred tax assets have not been brought to account as assets:

Tax Losses – revenue	2,158,227	1,672,043
Tax Losses – capital	-	-
Temporary differences	-	-
	<u>2,158,227</u>	<u>1,672,043</u>



10. Trade and other receivables

	2007	2006
	\$	\$
Goods and services tax recoverable	138,381	66,727

11. Prepayments

	2007	2006
	\$	\$
Prepayments	22,624	23,710

12. Property, plant and equipment

	Leasehold Improvements	Motor vehicles at cost	Plant and equipment at cost	Furniture and fixture at cost	Total
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance at 1 July 2005	-	4,500	106,740	18,733	129,973
Additions	-	-	20,172	18,135	38,307
Balance at 30 June 2006	-	4,500	126,912	36,868	168,280
Additions	76,236	66,900	374,804	26,537	544,477
Disposals	-	-	(22,530)	-	(22,530)
Balance at 30 June 2007	76,236	71,400	479,186	63,405	690,227
Accumulated depreciation					
Balance at 1 July 2005	-	(1,033)	(49,618)	(7,944)	(58,595)
Depreciation expense	-	(867)	(12,371)	(3,603)	(16,841)
Balance at 30 June 2006	-	(1,900)	(61,989)	(11,547)	(75,436)
Depreciation expense	(4,155)	(5,327)	(22,348)	(6,539)	(38,369)
Disposals	-	-	18,236	-	18,236
Balance at 30 June 2007	(4,155)	(7,227)	(66,101)	(18,086)	(95,569)
Net book value					
As at 30 June 2006	-	2,601	64,923	25,322	92,845
As at 30 June 2007	72,081	64,173	413,085	45,319	594,658

The following useful lives are used in the calculation of depreciation:

Leased improvements	5 years
Motor vehicles	4 years
Plant and equipment	2 – 10 years
Furniture and fixture	5 – 10 years

13. Intangible assets

	Patents development expenses	Software	Tradewise Credits	Total
	\$	\$	\$	\$
Gross carrying amount				
Balance at 1 July 2005	157,558	-	-	157,558
Additions	18,129	50,220	1,050,000	1,118,348
Balance at 30 June 2006	175,687	50,220	1,050,000	1,275,906
Additions	-	-	-	-
Balance at 30 June 2007	175,687	50,220	1,050,000	1,275,906
Accumulated amortization and impairment				
Balance at 1 July 2005	-	-	-	-
Amortization expense	-	(120)	-	(120)
Impairment expense	-	-	(1,050,000)	(1,050,000)

**13. Intangible assets (Cont'd)**

Balance at 30 June 2006	-	(120)	(1,050,000)	(1,050,120)
Amortization expense	-	(16,740)	-	(16,740)
Impairment expense	-	-	-	-
Balance at 30 June 2007	-	(16,860)	(1,050,000)	(1,066,860)
Net book value				
As at 30 June 2006	175,687	50,100	-	225,786
As at 30 June 2007	175,687	33,360	-	209,047

Software is related to the R&D purposes. It is amortised over 3 years using straight-line method.

The Patent development expenses related to lawyers fees for the development of the patents. The patent development expenses are considered to have indefinite useful lives, and are subject to annual impairment test.

As at 30 June 2007, the directors consider that there is no impairment associated with the Patents development expenses, given the Company's current activities.

The Tradewise Credits were acquired in exchange for issue of ordinary shares in an equity-settled share-based payment transaction. Since there was no evidence as at 30 June 2006 that it would be recoverable, an impairment loss was provided in 2006.

As at 30 June 2007, the Company has not yet utilised its Tradewise Credits. Since there is no indicator that Tradewise Credits will be recoverable at 30 June 2007, there is no reversal of the impairment provided in prior year.

14. Trade and other payables

	2007	2006
	\$	\$
Trade payables	274,081	245,405
ATO (Payroll tax and withholding tax)	-	46,278
Director fees	117,944	70,033
Other payable	2,316	4,710
	394,341	366,426

(i) The average credit period on purchases ranges from 2 weeks to 4 weeks.

15. Borrowings

	2007	2006
	\$	\$
Unsecured – at amortised cost		
<u>Current</u>		
Loans from:		
Other related parties (i)	4,758	202,121
Secured – at amortised cost		
<u>Current</u>		
Finance lease liabilities (ii) (note 22)	17,954	-
<u>Non-current</u>		
Finance lease liabilities (ii) (note 22)	60,453	-
	83,165	202,121
Disclosed in the financial statements as:		
Current borrowings	22,712	202,121
Non-current borrowings	60,453	-
	83,165	202,121

(i) Amounts repayable to related parties of the Company. Interest of 10% p.a. - 15% p.a. is charged on the outstanding loan balances (2006: 10% p.a. - 15% p.a.).

(ii) Secured by the assets leased.



16. Provisions

	2007 \$	2006 \$
<u>Current</u>		
Employee benefits	102,144	221,481

17. Issued capital

	2007 \$	2006 \$
53,419,130 fully paid ordinary shares (2006: 49,872,004)	8,168,330	6,091,488
26,000,000 fully paid preference shares (2006: 26,000,000)	-	-
	8,168,330	6,091,488

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2007		2006	
	No.	\$	No.	\$
Fully paid ordinary shares				
Balance at beginning of financial year	49,872,004	6,091,488	46,386,639	2,654,206
Shares issued				
- normal shares issued	2,245,192	1,914,010	2,435,365	2,387,282
- bonus shares issued	1,133,904	-	-	-
- transfer from other equity-settled share-based payment reserve (Note 18)	168,030	162,832	-	-
Shares issued for "Tradewise credits"	-	-	1,050,000	1,050,000
Balance at end of financial year	53,419,130	8,168,330	49,872,004	6,091,488

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

Included in 2007 shares issued figure, there is 1,133,904 Bonus shares issued to those shareholders who held the Company's shares on 7 May 07, except for the founding shareholders, Joe Vella and Richard Giza. The Bonus shares were issued for nil consideration.

	2007		2006	
	No.	\$	No.	\$
Preference shares				
Balance at beginning of financial year	26,000,000	-	-	-
Shares issued	-	-	26,000,000	-
Balance at end of financial year	26,000,000	-	26,000,000	-

Preference shares have no entitlements to dividends or capital upon liquidation. It carries one vote per share. All preference shares were issued to Giza Global Group PTy Ltd. (Note 28 (c)).

Share options granted under the employee share option plan

In accordance with the provisions of the employee share option plan, as at 30 June 2007, selected employees have options over 7,827,424 of the Company's ordinary shares (of which 4,825,430 was vested immediately and the remaining 3,001,994 are unvested). (Nil options as at 30 June 2006).

The Options may be exercised at any time after thirty six (36) months from issue and up until expiry date, or upon receiving a written notice from the Company indicating that the Company has determined to apply to the Australian Securities Exchange ("ASX") to be listed on the ASX and stating that the Options must be exercised by a



prescribed date failing which any Options which are not exercised shall lapse, whichever comes first.

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

Share options granted under the employee share option plan carry no rights to dividends and no voting rights. Further details of the employee share option plan are contained in note 26 to the financial statements.

18. Reserves

	2007 \$	2006 \$
Equity-settled employee benefits	4,268,250	-
Other equity-settled share-based payment reserve	483,149	437,500
	<u>4,751,399</u>	<u>437,500</u>

Equity-settled employee benefits reserve

Balance at beginning of financial year	-	-
Share-based payment	4,268,250	-
Balance at end of financial year	<u>4,268,250</u>	-

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. Further information about share-based payments to employees is made in note 26 to the financial statements.

Other equity-settled share-based payment reserve

Balance at beginning of financial year	437,500	-
Share-based payment	208,481	437,500
Transfer to share capital	(162,832)	-
Balance at end of financial year	<u>483,149</u>	<u>437,500</u>

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

19. Accumulated losses

	2007 \$	2006 \$
Balance at beginning of financial year	(6,623,478)	(3,270,216)
Losses attributable to members of the Company	(5,888,862)	(3,353,262)
Balance at end of financial year	<u>(12,512,340)</u>	<u>(6,623,478)</u>

20. Earnings per share

	2007 Cents per share \$	2006 Cents per share \$
Basic earnings per share	(11.27)	(6.89)
Diluted earnings per share	(11.27)	(6.89)



20. Earnings per share (Cont'd)

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2007	2006
	\$	\$
Net loss	(5,888,862)	(3,353,262)
Loss used in the calculation of basic EPS	(5,888,862)	(3,353,262)
	2007	2006
	No.	No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	52,253,479	48,667,581

Diluted earnings per share

The earnings used in the calculation of diluted earnings per share is as follows:

	2007	2006
	\$	\$
Net Loss	(5,888,862)	(3,353,262)
Losses used in the calculation of diluted EPS	(5,888,862)	(3,353,262)
	2007	2006
	No.	No.
Weighted average number of ordinary shares used in the calculation of basic EPS	52,253,479	48,667,581
Shares deemed to be issued for no consideration in respect of:		
Employee share options *	-	-
Equity-based lease payment *	-	-
Weighted average number of ordinary shares used in the calculation of diluted EPS	<u>52,253,479</u>	<u>48,667,581</u>

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

	2007	2006
	No.	No.
Employee share options	636,555	-
Equity-based lease payment	213,679	437,500

21. Commitments for expenditure

Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 22 to the financial statements.

22. Leases

Finance leases

Leasing arrangements

Finance leases relate to the purchase of motor vehicles and laptops with lease terms of 2-3 years. The Company has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements.



22. Leases (Cont'd)

Finance lease liabilities

	Minimum future lease payments		Present value of minimum future lease payments	
	2007	2006	2007	2006
	\$	\$	\$	\$
No later than 1 year	26,813	-	17,954	-
Later than 1 year and not later than 5 years	70,780	-	60,453	-
Later than five years	-	-	-	-
Minimum future lease payments*	97,593	-	78,407	-
Less future finance charges	(19,186)	-	-	-
Present value of minimum lease payments	<u>78,407</u>	-	<u>78,407</u>	-
Included in the financial statements as: (note 15)				
Current borrowings			17,954	-
Non-current borrowings			<u>60,453</u>	-
			<u>78,407</u>	-

* Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

Operating leases

Leasing arrangements

RTI entered into two contracts with Sutcliffe Fabrications Pty. Ltd. ("Sutcliffe") and Jadecoast Pty. Ltd. ("Jadecoast") to obtain rights of using their properties between March 2005 and March 2007 in exchange for issuing the two companies ordinary shares at the value same as the value of services provided by the two companies. The ordinary share value is \$1 per share. The lease agreement expired in March 2007.

Non-cancellable operating lease commitments

	2007	2006
	\$	\$
Not longer than 1 year	-	262,500
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
	<u>-</u>	<u>262,500</u>

23. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2007	2006
		%	%
Parent entity			
Recoilless Technologies International Corp. Ltd.	Australia		
Subsidiaries			
Recoilless Technologies (USA) Inc. (i)	USA	100	100

(i): Recoilless Technologies (USA), Inc. was incorporated on 14 Oct. 2003 in the USA. It has been dormant financially since the incorporation. Authorised shares of 100,000,000 have not as yet been issued or allocated. Due to its dormant nature, this subsidiary is not consolidated into the parent company.



24. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	2007	2006
	\$	\$
Cash and cash equivalents	22,329	286,469

(b) Non-cash financing and investing activities

During current financial year, the Company acquired two cars for \$66,900 and three laptops for \$24,835 under finance lease agreements. The acquisitions will be reflected in the cash flow statement over the term of the finance lease via lease repayments.

(c) Reconciliation of profit for the period to net cash flows from operating activities

	2007	2006
	\$	\$
Loss for the year	(5,888,862)	(3,353,262)
Depreciation and amortisation	55,108	16,841
Foreign exchange (gain)/loss	(6,477)	-
Equity-settled share-based payment	4,247,413	437,500
Interest income received and receivable	(7,532)	(11,364)
Impairment of non-current assets	-	1,050,000
(Increase)/decrease in assets:		
Trade and other receivables	(70,568)	6,972
Increase/(decrease) in liabilities:		
Trade and other payables	(74,111)	(62,432)
Provisions	(119,337)	41,739
Net cash from operating activities	(1,864,366)	(1,874,006)

25. Financial instruments

(a) Financial risk management objectives

The Corporate Treasury functions are centrally managed by the board of directors. RTI 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 3 to the financial statements.

Maturity profile of financial instruments

The maturity profile of financial assets and financial liabilities held by the Company are detailed on the following pages:



25. Financial instruments (Cont'd)

The following table details the Company's exposure to interest rate risk as at 30 June 2007:

2007	Weighted average effective interest rate %	Variable interest rate \$	Fixed interest rate maturing			Non-interest bearing \$	Total \$
			Less than 1 year \$	1-2 years \$	2+ years \$		
Financial assets							
Cash	-	-	-	-	-	22,329	22,329
Receivables	-	-	-	-	-	138,381	138,381
	-	-	-	-	-	160,710	160,710
Financial liabilities							
Loan – Unsecured	13.5	-	4,758	-	-	-	4,758
Trade and other payables	-	-	-	-	-	394,341	394,341
Finance lease liability	7%	-	17,954	60,453	-	-	78,407
Employee benefits	-	-	-	-	-	102,144	102,144
			22,712	60,453	-	496,485	579,650

The following table details the Company's exposure to interest rate risk as at 30 June 2006:

2006	Weighted average effective interest rate %	Variable interest rate \$	Fixed interest rate maturing			Non-interest bearing \$	Total \$
			Less than 1 year \$	1-2 years \$	2+ years \$		
Financial assets							
Cash	6.7	286,469	-	-	-	-	286,469
Receivables	-	-	-	-	-	66,727	66,727
		286,469	-	-	-	66,727	353,196
Financial liabilities							
Loan – Unsecured	10.0	-	202,121	-	-	-	202,121
Trade and other payables	-	-	-	-	-	366,426	366,426
Employee benefits	-	-	-	-	-	221,481	221,481
			202,121	-	-	587,907	790,028



26. Share-based payments

Employee share option plan

The Company has an ownership-based compensation scheme for selected employees of the Company. In accordance with the provisions of the plan, as approved by shareholders at an Extraordinary General Meeting in June 2005, selected employees may be granted options to purchase parcels of ordinary shares at an exercise price of \$0.01 per ordinary share. Each employee share option converts into one ordinary share of Recoiless 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 Recoiless Technologies International Corp. Ltd. indicating that the Company has determined to apply to be listed on the ASX.

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

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

- (*) Former Series Option are options granted to selected former employees of the Company. The Former Series Options vested on the date they were issued.
- (**) Current Series Option are options granted to selected existing employees of the Company. The Current Series Options vested on the date they were issued.
- (***) Future Series Option are options granted to selected existing employees of the Company. They are vested subject to the employee remaining employed with the Company and satisfying the performance hurdles stipulated in their employment contract.

The fair value of the share options granted during the financial year is \$0.86 (2006: Nil). 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.

Inputs into the model

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

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

The following reconciles the outstanding share options granted under the employee share option plan at the beginning and end of the financial year:

	2007		2006	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	-	-	-	-
Granted during the financial year	7,827,424	0.01	-	-
Exercised during the financial year	-	-	-	-
Expired during the financial year	-	-	-	-
Balance at end of the financial year	7,827,424	0.01	-	-
Exercisable at end of the financial year	-	-	-	-



27. Key management personnel compensation

Details of key management personnel

The directors and other members of key management personnel of the Company during the year were:

- Richard Giza – Chairman, Managing Director and Chief Technology Architect
- Joseph Vella – Executive Director and Technology Trustee
- Mark Darras – Non Executive Director
- John W Murray – Non Executive Director
- Adam J Vella – Non Executive Director
- Peter Dunn – Executive Director, and Chief Executive Officer
- Les Targ – Non Executive Director
- Douglas Kelley – Non Executive Director
- Stephen Ayling – Non Executive Director
- Geoffrey Morgan – Executive Director and Chief Operations Officer
- Stephen McArthur – Non Executive Director and Vice Chairman
- Horace Lim – Strategic Advisor
- Getha Somasundaram – Company Secretary
- Phillip England – Company Secretary and Chief Financial Officer
- Peter Wolff – Business Development Manager

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

- Mark Darras (resigned 12 February 2007)
- John W Murray (resigned 9 March 2007)
- Peter Dunn (resigned 9 March 2007)
- Les Targ (resigned 8 March 2007)
- Douglas Kelley (resigned 28 March 2007)
- Stephen Ayling (resigned 8 March 2007)
- Stephen McArthur (appointed 19 April 2007, resigned 5 December 2007)

Company secretary

- Getha Somasundaram (resigned 4 October 2006)
- John Murray (resigned 9 March 2007)
- Richard Giza (resigned 28 March 2007)
- Phillip England (resigned 10 October 2007)
- Geoffrey Morgan (appointed 13 March 2007)

Key management personnel compensation

The aggregate compensation made to key management personnel of the Company is set out below:

	2007	2006
	\$	\$
Short-term employee benefits	650,033	672,684
Post-employment benefits	47,327	37,629
Share-based payment	3,394,044	-
	4,091,404	710,313

The compensation of each member of the key management personnel of the Company for the current year is set out in the following page:



	Short-term employee benefits			Post-employment benefits		Share-based payment			Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Other	Equity-Settled		Cash - Settled	
						Shares & units	Options & rights		
2007	\$	\$	\$	\$	\$	\$	\$	\$	\$
Richard Giza	69,038	-	-	6,213	-	-	-	-	75,251
Joseph Vella	70,000	-	-	6,300	-	-	-	-	76,300
Mark Darras	32,259	-	-	2,927	-	-	368,823	-	404,009
John W Murray	67,363	-	-	2,442	-	-	522,726	-	592,531
Adam J Vella	84,194	-	-	-	-	-	487,194	-	571,388
Peter Dunn	71,168	-	-	6,405	-	-	280,942	-	358,515
Les Targ	20,658	-	-	1,859	-	-	170,000	-	192,517
Douglas Kelley	22,301	-	-	2,007	-	-	-	-	24,308
Stephen Ayling	25,822	-	-	2,324	-	-	374,963	-	403,109
Geoffrey Morgan	10,394	-	-	935	-	-	136,133	-	147,462
Stephen McArthur	8,654	-	-	779	-	-	118,288	-	127,721
Horace Lim	32,087	-	-	2,888	-	-	493,000	-	527,975
Getha Somasundaram	27,467	-	-	2,472	-	-	236,963	-	266,902
Phillip England	4,615	-	-	415	-	-	68,066	-	73,096
Peter Wolff	104,013	-	-	9,361	-	-	136,945	-	250,319
	650,033	-	-	47,327	-	-	3,394,044	-	4,091,404

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

	Short-term employee benefits			Post-employment benefits		Share-based payment			Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Other	Equity-Settled		Cash - Settled	
						Shares & units	Options & rights		
2006	\$	\$	\$	\$	\$	\$	\$	\$	\$
Richard Giza	90,962	-	212	8,187	-	-	-	-	99,361
Joseph Vella	90,962	-	212	8,187	-	-	-	-	99,361
Mark Darras	17,385	-	-	1,565	-	-	-	-	18,950
John W Murray	90,269	-	-	3,669	-	-	-	-	93,938
Adam J Vella	120,261	-	-	-	-	-	-	-	120,261
Peter Dunn	30,000	-	-	2,700	-	-	-	-	32,700
Leslie Targ	10,521	-	-	947	-	-	-	-	11,468
Douglas Kelley	30,000	-	-	2,700	-	-	-	-	32,700
Ross Babbage (resigned)	37,769	-	-	-	-	-	-	-	37,769
Stephen Ayling	46,644	-	-	-	-	-	-	-	46,644
Getha Somasundaram	53,750	-	-	4,838	-	-	-	-	58,588
Horace Lim	53,737	-	-	4,836	-	-	-	-	58,573
Total	672,260	-	424	37,629	-	-	-	-	710,313



27. Key management personnel compensation (Cont'd)
Contracts for services of key management personnel

	Type of Agreement	Date Agreement Effective	Duration of the contract	Periods of notice required to terminate contract	Termination payments provided for under the contract.
Richard Giza	Chairmans Agreement	1-May-05	From AGM to AGM	Nil	Nil
	Chief Technology Architect	1-May-06	15 Years	90 days notice by either RTI or employee	Payment for notice period & a severance benefit if applicable
	Chief Technology Trustee	1-May-05	15 Years	Nil for misconduct 90 days notice by either RTI or employee	Nil Payment for notice period & a severance benefit if applicable
	Executive Director Agreement	1-May-05	From AGM to AGM	Nil for misconduct	Nil
Mark Darras	Formulated but Never Signed	N/A	N/A	Nil	Nil
John W Murray	Vice Chairman Agreement	8-Sep-05	From AGM to AGM	N/A	N/A
Adam J Vella	Non Executive Director Agreement	13-Mar-05	From AGM to AGM	Nil	Nil
Adam J Vella - AFA Enterprises	Contractor Agreement	21-Mar-05		Nil	Nil
			18 months	a) immediate termination by RTI if supplier in breach of confidentiality or services to be provided b) 30 days notice for any reason either by RTI or supplier	Nil
Peter Dunn	Group Chief Executive Officer	1-Feb-07	3 Years	a) CEO may resign at any time providing minimum 60 days notice b) RTI may terminate at any time providing 90 days notice or termination without notice if for misconduct	Payment for notice period Payment for notice period
Les Tang	Non Executive Director Agreement	22-Feb-06	From AGM to AGM	Nil	Payment for notice period if terminated within 6 months of commencement but nil for misconduct
Douglas Kelley	Formulated but Never Signed				Nil
Stephen A'yling	Non Executive Director Agreement	7-Sep-05	From AGM to AGM	Nil	Nil
Geoffrey Morgan	Chief Operations Officer	2-Apr-07	12 months	a) 60 days notice by employee b) 30 days notice by RTI or nil for misconduct	Payment for notice period or nil if elect to forfeit Payment for notice period or nil for misconduct
	Executive Director Agreement	2-Apr-07	From AGM to AGM	Nil	Nil
Stephen McArthur	Non Executive Director Agreement	19-Apr-07	From AGM to AGM	Nil	Nil
	Vice Chairman Agreement	19-Apr-07	From AGM to AGM	Nil	Nil
Horace Linn	Nil	N/A	N/A	N/A	N/A



27. Key management personnel compensation (Cont'd)
Contracts for services of key management personnel (Cont'd)

	Type of Agreement	Date Agreement Effective	Duration of the contract	Periods of notice required to terminate contract	Termination payments provided for under the contract.
Getha Somasundaram	Company Secretary Agreement	28-Apr-05	Not stated	a) one month by employee or by forfeiting an amount equal to remuneration for that period of notice b) one months notice by RTI or paying employee in lieu of notice period c) nil for misconduct	Payment for notice period or nil if elect to forfeit Payment for notice period or nil for misconduct Nil
Phillip England	Employment Agreement	12-Jun-07	Not stated	a) 8 weeks notice by employee or by forfeiting an amount equal to remuneration for that period of notice b) 8 weeks notice by RTI or paying employee in lieu of notice period	Payment for notice period or nil if elect to forfeit Payment for notice period or in lieu of notice period Nil for misconduct
Phillip England - ACE Business Investments	Contractor Agreement	12-Jun-07	6 months	a) immediate termination by RTI if supplier in breach of confidentiality or services to be provided b) 30 days notice for any reason either by RTI or supplier	Nil Payment for notice period
Peter Wolff	Employment Agreement	20-May-06		a) Employee providing 3 months notice or by forfeiting an amount equal to remuneration for that period of notice b) 3 months notice by RTI or paying employee in lieu of notice period c) nil for misconduct	Payment for notice period or nil if elect to forfeit Payment for notice period or in lieu of notice period Nil



28. Related party transactions

(a) Transactions with key management personnel

i. Key management personnel compensation

Details of key management personnel compensation are disclosed in note 27 to the financial statements.

(b) Loans from key management personnel

2007	Balance at beginning \$	Interest charged \$	Balance at end \$
Specified directors	202,121	12,615	4,758
Specified executives	-	-	-
Total	202,121	12,615	4,758

2006	Balance at beginning \$	Interest charged \$	Balance at end \$
Specified directors	507,381	89,986	202,121
Specified executives	-	-	-
Total	507,381	89,986	202,121

(c) Key management personnel equity holdings

Fully paid ordinary shares of RTI (2007)

	Balance@ 01/07/06	Granted as remuneration	Received on exercise of options	Net other change (iii)	Balance@ 30/06/07
	No.	No.	No.	No.	No.
Specified directors and companies affiliated with directors					
Richard Giza	1,745,077	-	-	-	1,745,077
Joseph Vella (ii)	1,832,078	-	-	(6,000)	1,826,078
Adam Vella	190,164	-	-	106,708	199,672
Mark Darras	-	-	-	-	-
Peter Dunn	15,450	-	-	773	16,223
Stephen McArthur	-	-	-	65,625	65,625
Geoffrey Morgan	32,000	-	-	38,350	70,350
Stephen Ayling	-	-	-	-	-
Les Targ	-	-	-	-	-
Douglas Kelley	-	-	-	-	-
John Murray	20,000	-	-	1,000	21,000
Giza Global Group Pty. Ltd. (i)	26,000,000	-	-	-	26,000,000
Subtotal	29,834,769	-	-	206,456	30,041,225
Specified executives					
Phillip England	-	-	-	-	-
Getha Somasundaram	-	-	-	-	-
Peter Wolff	100,000	-	-	5,000	105,000
Horace Lim	-	-	-	-	-
Subtotal	100,000	-	-	5,000	105,000
Total	29,934,769	-	-	211,456	30,146,225


28. Related party transactions (Cont'd)
(c) Key management personnel equity holdings (Cont'd)
Fully paid ordinary shares of RTI (2006)

Specified directors and companies affiliated with directors	Balance@ 01/07/05	Granted as remuneration	Received on exercise of options	Net other change	Balance@ 30/06/06
	No.	No.	No.	No.	No.
Richard Giza	1,836,577	-	-	(91,500)	1,745,077
Joseph Vella	1,923,578	-	-	(91,500)	1,832,078
Adam Vella	147,164	-	-	43,000	190,164
Peter Dunn	-	-	-	15,450	15,450
Geoffrey Morgan	-	-	-	32,000	32,000
John Murray	-	-	-	20,000	20,000
Giza Global Group Pty. Ltd.	26,000,000	-	-	-	26,000,000
Subtotal	29,907,319	-	-	(72,550)	29,834,769
Specified executives					
Peter Wolff	100,000	-	-	-	100,000
Subtotal	100,000	-	-	-	100,000
Total	30,007,319	-	-	(72,550)	29,934,769

Fully paid preference shares of RTI (2007)

Specified directors and companies affiliated with directors	Balance@ 01/07/06	Granted as remuneration	Received on exercise of options	Net other change	Balance@ 30/06/07
	No.	No.	No.	No.	No.
Giza Global Group Pty. Ltd. (i)	26,000,000	-	-	-	26,000,000
	26,000,000	-	-	-	26,000,000

Fully paid preference shares of RTI (2006)

Specified directors and companies affiliated with directors	Balance@ 01/07/05	Granted as remuneration	Received on exercise of options	Net other change	Balance@ 30/06/06
	No.	No.	No.	No.	No.
Giza Global Group Pty. Ltd.	-	-	-	26,000,000	26,000,000
	-	-	-	26,000,000	26,000,000

Share options of RTI (iv)

	Balance at 1 July 06	Granted as compensation	Exercised	Net other change	Bal at 30 June 07	Bal vested at 30 June 07	Vested but not exercisable	Vested and exercisable	Options vested during year
2007	No.	No.	No.	No.	No.	No.	No.	No.	No.
Stephen McArthur	-	550,000	-	-	550,000	100,000	100,000	-	100,000
Geoff Morgan	-	791,236	-	-	791,236	100,000	100,000	-	100,000
Peter Dunn	-	330,519	-	-	330,519	330,519	330,519	-	330,519
Stephen Ayling	-	441,134	-	-	441,134	441,134	441,134	-	441,134
John Murray	-	614,971	-	-	614,971	614,971	614,971	-	614,971
Mark Darras	-	433,909	-	-	433,909	433,909	433,909	-	433,909
Adam Vella	-	1,010,627	-	-	1,010,627	505,682	505,682	-	505,682
Les Targ	-	200,000	-	-	200,000	200,000	200,000	-	200,000
Getha	-	-	-	-	-	-	-	-	-
Somasundaram	-	278,781	-	-	278,781	278,781	278,781	-	278,781
Horace Lim	-	580,000	-	-	580,000	580,000	580,000	-	580,000
Phillip England*	-	395,618	-	-	395,618	50,000	50,000	-	50,000
Peter Wolff	-	161,112	-	-	161,112	161,112	161,112	-	161,112
	-	5,787,907	-	-	5,787,907	3,796,108	3,796,108	-	3,796,108



28. Related party transactions (Cont'd)

**(c) Key management personnel equity holdings (Cont'd)
Share options of RTI (Cont'd)**

* Upon resignation Phillip England requested that the 50,000 options issued to him be cancelled and therefore at the date of this report he retains no option entitlements in RTI.

2006
None

All share options issued to key management personnel were made in accordance with the provisions of the employee share option plan.

During the financial year, nil options (2006: nil) were exercised by key management personnel. Further details of the employee share option plan and of share options granted during the 2007 financial year are contained in notes 26 to the financial statements.

(i): Richard Giza and Joseph Vella are exclusive shareholders of Giza Global Group Pty Ltd. At 30 June 2007 Giza Global Group possess 26,000,000 ordinary fully paid shares in RTI and 26,000,000 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 shareholders. The only right attached to the preference shares is one voting right per preference share.

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

(iii): The net change in the shareholdings of Directors and Executives represents either the purchase of additional shares in the capital of RTI or the issue of bonus shares (5%) in May 2007 in line with the allocation to all Shareholders excluding Joseph Vella, Richard Giza and Giza Global Group Pty Ltd. .

(iv): The options represent an allocation to Directors and Executives as per the Employee Share Option Plan.

	2007 \$	2006 \$
(d) Other transactions with specified directors Apart from remuneration, loans or equity holdings, no additional transactions with specified directors have taken place. Transactions with personally-related entities are disclosed in (f) below.	-	-
(e) Other transactions with specified executives There are no income and expenses that resulted from transactions other than remuneration, loans or equity holdings, with specified executives or their personally-related entities:	N/A	N/A

(f) Transactions with other related parties

Other related parties include:

- AFA Enterprises Pty Ltd (“AFA”), controlled by Mr Adam J Vella, Non Executive Director of RTI;
- Beema Holdings Pty Ltd (“Beema”), controlled by Mr John W Murray, Non Executive Director of RTI;
- 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 RTI. Vader owns the intellectual property under development by RTI;
- 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 RTI. GGG is the majority shareholder of RTI;
- Vella’s Woodturning, owned by Mr Joseph Vella, Executive Director of RTI;
- Mr Jack Giza, the son of Mr Richard Giza, Executive Director of RTI;
- Advanced Propulsion Systems Pty Ltd ACN 113 666 925 and Universal Pressure Vessels Pty Ltd ACN 113 666 970 are controlled by Mr Richard Giza and Mr Joseph Vella, Executive Directors of RTI;
- RTI 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 RTI; and



28. Related party transactions (Cont'd)

Transactions involving other related parties

- 1) One Director of RTI, Mr Adam J Vella, is also a Director of AFA Enterprises Pty Ltd (“AFA”), which receives fees under a contractor agreement which represent remuneration that Mr Vella would otherwise be entitled to in his capacity of a Director of RTI if he were employed directly by RTI. The annual contractor fee is \$62,920 (inclusive of GST) and the annual Directors fee is \$33,000 (inclusive of GST). During the 2006/07 financial year, the actual cost incurred in connection with AFA is \$84,194 (\$41,339 contractor fee and \$42,855 Directors fee). (2006: \$120,261)
- 2) One Director of RTI, Mr John W Murray, is also a Director of Beema Holdings Pty Ltd (“Beema”), which receives fees that represent remuneration Mr Murray would otherwise be entitled to in his capacity of a Director of RTI if he were employed directly by RTI. The annual fee is \$49,500 (inclusive of GST). During the 2006/07 financial year, the actual cost incurred in connection with Beema is \$40,223. (2006: \$49,500)
- 3) Two Executive Directors of RTI, 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 RTI. Some services have been provided by Vader at nil cost to RTI. RTI paid the ASIC and accounting fees in relation to Vader and during the 2006/07 financial year, the actual cost of these fees is \$392. (2006: \$212)
- 4) Two Directors of RTI, Mr Joseph Vella and Mr Richard Giza are Directors and equal shareholders of Giza Global Group Pty Ltd (“GGG”). RTI paid the ASIC and accounting fees for this company and during the 2006/07 financial year, the actual cost of these fees is \$392. (2006: \$212)
- 5) One Director of RTI, Mr Joseph Vella, is also a joint owner of Vella’s Woodturning. RTI occupies some of the office space owned by Vella’s Woodturning and pays rent and outgoings including utilities, rates and body corporate fees charged at normal commercial rates. The total expense in this regard amounts to \$25,550 during the 2006/07 financial year. (2006: \$26,415)
- 6) Mr Richard Giza and Mr Joseph Vella, Executive Directors of RTI, also control two additional entities namely Advanced Propulsion Systems Pty Ltd ACN 113 666 925 and Universal Pressure Vessels Pty Ltd ACN 113 666 970. RTI paid the ASIC fees for these companies and during the 2006/07 financial year, the actual cost of these fees is \$978. (2006: nil)

29. Remuneration of auditors

	2007 \$	2006 \$
Auditor of the parent entity		
Audit and review of the financial report	53,502	8,000
Tax services	2,860	2,600
	<u>56,362</u>	<u>10,600</u>

The auditor of Recoilless Technologies International Corp. Ltd. is Deloitte Touche Tohmatsu.

30. Subsequent events

- 1) To facilitate its business in New Zealand, Recoilless Technologies International Corp. Ltd. set up a New Zealand subsidiary, Recoilless Technologies International (New Zealand) Limited on 22 November 2007. No capital has yet been injected into this subsidiary.
- 2) Recoilless Technologies International Corp. Ltd. received \$43,635 government grants after year end to support its business activities overseas.
- 3) Recoilless Technologies International Corp. Ltd. received \$265,000 cash after year end from investors.
- 4) Recoilless Technologies International Corp. Ltd. issued 466,334 ordinary shares to Jadecoast Pty Ltd on 27 November 2007 in exchange for \$345,730 worth of services provided by Bendtech Pty Ltd during 2005 through to 2007.



30. Subsequent events (cont'd)

5) On 9 October 2007, Adam J Vella, Director of RTI, gave notice to his fellow directors that he will be unavailable to act as a Director due to his Olympic commitments. He appointed Joseph Vella as his Alternate effective 6 August 2007 until such time as notice is given to the Directors of the removal of Joseph Vella as Adam J Vella's Alternate or Joseph Vella gives notice of his resignation.

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Annexure B – Ordinary Business Item 2 ‘Directors’ Review’

During the 2006/2007 financial year and to date there have been significant changes within RTI at both the Board and Operational level with the focus returning to Research and Development. However through this refocus RTI has also managed to continue on its path of commercialisation including aligning strategic industry partnerships.

Following is a list of significant events and achievements since our last Annual General Meeting held on 17 November 2006:

- Successful Fund Raising through Public Prospectus;
- Restructuring of the RTI Board;
- Operational Changes;
- Technology Advancements and Demonstrations;
- Further Granting of Patents and Preparations for Additional Patent Applications;
- Export Marketing and Development Grant
- Strategic Partnership - Poland;
- Negotiations and Preparations for Stock Exchange Listing;
- Establishing RTI Subsidiaries;
- Future Fundraising Intentions;
- Signing of Letter of Intent with Huta Stalowa Wola S.A. (Poland);
- Signing of Joint Commercialisation Agreement with Tactical Aerospace Group (USA);
- Purchase of Metal Fabrication Company; and
- Provision of Weapons by Arms Company for Concept Demonstration;

Successful Fund Raising Through Public Prospectus

RTI released its first Public Prospectus on 3 November 2005. This document absorbed several years of preparation and the result exemplified the dedication and attention to detail that RTI has taken in the development of the business. The Prospectus was well received in the market and by the closing date of 3 December 2006 a successful amount of \$4,213,525.72 in investment funds was raised primarily from small investors, the cornerstone of RTI.

The investment funds raised through the Prospectus enabled RTI to not only repay a significant amount of debt but also continue with the enhancement of internal capabilities, increase security around the technology and progress commercial discussions with a number of parties.

Restructuring of the RTI Board

At a meeting of the Board held in April 2007, it was determined that RTI must heavily focus its efforts on Research and Development (“R&D”). To enable this refocus to occur it was necessary to dramatically reduce expenditure and therefore a major restructure of the Board took place and a number of Non Executive Directors and Executives consequently resigned. This therefore reduced the financial burden on RTI from approximately \$730,000 per annum to the current approximate \$320,000 per annum. The availability of additional financial resources enables further injection into R&D.

The current Board of Directors comprises:

1. Mr Richard Giza – Chairman and Managing Director (Executive Director)
2. Mr Joseph Vella – Chief Technology Trustee (Executive Director)
3. Mr Geoffrey Morgan – Chief Operations Officer & Company Secretary (Executive Director)
4. Mr Adam Vella – Non Executive Director (Leave of Absence)

With the Board being much smaller and all members Victorian based, this allows for quicker decision making, greater efficiency and substantially reduced operating costs.



Operational Changes

In line with the reduction in Board numbers, the full time employee base has also been streamlined with key employees being delegated multifunctional roles. This downsizing also brings the benefits of greater efficiency and reduced operational expenditure. RTI will look to outsource specific human resource requirements in the future on an 'as needed' basis rather than maintain a full time workforce with all the associated on-costs.

It is the intention to maintain a lean but fully functional workforce and ensure costs are kept to a minimum. A current Organisational Chart is available by visiting the RTI website.

Technology Advancements and Demonstrations

After a small period of not holding technology demonstrations due to the organisational restructure and the need to obtain a new Firearms Dealers Licence, RTI was able to recommence the technology demonstrations in May 2007. These demonstrations are an integral part of operations that allows RTI to demonstrate the capabilities of the technology to industry collaborators, defence organisations and the like.

In addition, the technology demonstrations have been essential for prospective investors at all levels and have proven to be very successful and will therefore continue on a regular basis into the future.

Richard Giza in consultation with the Engineering Department has been able to substantially advance the Recoilless Technology to the point where considerably more powerful ammunition and charges can be used in the latest prototypes currently under development. These developments include multiple mechanical arrangements of the Recoilless Technology and cover the principal of totally controlling recoil in addition to the already eliminated recoil.

Several new prototypes with differing components, cosmetics, principles etc have been built and furniture components for the prototypes are also being developed. To test safely, the prototypes can be mounted on the free standing test bed. The testing room in the Keysborough Research and Development Facility has now been extended to allow the safe testing of the prototypes. Manufacture in differing materials eg. titanium, aluminium etc has commenced together with differing variations of the prototypes. The purpose of the differing prototypes is to choose the best system to progress to the next stage of R&D and to substantiate patent claims that are being developed and lodged.

It is anticipated that an upgraded technology demonstration utilising the new prototypes will be offered to Shareholders to witness early in 2008.

Further Granting of Patents for Additional Patent Applications

To date fifteen patent applications for the Recoilless Technology have been granted out of the 38 applied for. A list of Granted applications is shown below. Additionally the patent application has been accepted in the Gulf Cooperation Council and the grant of the patent is pending. This application covers Saudi Arabia, Kuwait, Bahrain, Oman, Qatar and the United Arab Emirates.

Country or region	Application Number	Filing Date	Date
Australia	2001267128	2 March 2001	18/10/05
Bangladesh	219/2001	26 August 2001	26/12/03
Iran	27197	12 March 2001	20/06/01
Israel	151581	2 March 2001	01/02/07
Jordan		2 September 2001	03/05/06
Malaysia	PI200014043	29 August 2001	28/02/07
Pakistan	306/2001	31 March 2001	31/03/03
Peru	869.2001	29 August 2001	30/04/04
Philippines	1-2001 000885	6 April 2001	16/09/05
Russian Federation	2002126268	2 March 2001	10/01/06
South Africa	2002/7923	2 March 2001	28/01/04



Granted Patents Cont'd

Country or region	Application Number	Filing Date	Date
Taiwan (ROC)	90112377	23 May 2001	11/10/03
Ukraine	2002107835/M	2 March 2001	16/01/06
USA	10/233275	30 August 2002	13/07/04
Vietnam	1-2002-00907	2 March 2001	30/07/05

Copies of the 15 granted application certificates are available by visiting the RTI website at <http://www.rticl.com/html/patents.html>.

On 1 December 2006 the process also commenced to formulate and apply for the second stage of patents to further protect the Recoilless Technology with the intention being to finalise and file two provisional patent applications within the next two to three months. This is due to the complexity and multiple mechanical arrangements of the Recoilless Technology and covers the principal of totally controlling the recoiling forces. It is the intention to launch these additional applications initially in the Australian and USA Patent Offices. These applications will be further extended to global protection according to Patent Cooperation Treaty (PCT) and other international Intellectual Property protection organisations and individual countries.

Export Marketing and Development Grant

In September 2007 RTI submitted its first Export Marketing and Development Grant (EMDG) application which is a scheme whereby aspiring and current exporters can gain Australian Government financial assistance Administered by Austrade. The scheme supports a wide range of industry sectors and products, including inbound tourism and the export of intellectual property and know-how.

The EMDG encourages small and medium sized Australian business to develop export markets, reimburses up to 50 percent of expenses incurred on eligible export promotion activities (ie marketing consultants, overseas representatives, marketing visits, communications, free samples, trade fairs, promotional literature and advertising and overseas buyers) above a \$15,000 threshold and provides up to seven grants to each eligible application. To access the scheme for the first time, businesses need to have spent \$15,000 over two years on eligible marketing expenses.

On 24 October 2007 RTI received confirmation from Austrade that the EMDG application for the 2006-07 grant year had been approved and as a result a payment to RTI of \$43,635 from Austrade has since been received.

For additional information on the EMDG application process please visit www.austrade.gov.au.

Strategic Partnership – Poland

As a result of Richard Giza's visit to Poland in September 2007, he was able to initiate discussions leading to a possible strategic partnership with a major weapons manufacturer in Poland. This manufacturer is part of a group of some 20 companies that manufacture almost everything related to land warfare.

As part of the intended strategic partnership, the Group has initially agreed to provide RTI with the human and physical resources to implement the Recoilless Technology across their entire range of weapons, weapons systems and platforms. Personnel from the Group will be sent to Australia to work together with Richard Giza and additional necessary resources for the implementation of the Recoilless Technology.

The costs associated with this exercise will be met by the Group ie remuneration of their personnel, travel and accommodation costs etc.

According to the latest correspondence received from the Vice Chairman of the Group dated 8 December 2007, RTI has been advised that in accordance with the previous discussions the spectrum of possible cooperation between the two parties is consistent with the Ministry of National Defence's (Poland) work



on the specifications for the development of firearms. RTI has also been advised that it will be informed when further negotiations are possible with the Group once it has had the chance to familiarize itself with Government requirements.

As negotiations have not been finalised and formalised it is not possible at this stage to publicly release details of the Group. RTI's Legal Counsel in Poland will continue to work with the Group to formalise the strategic partnership by way of a formal written agreement duly executed by both parties.

Negotiations and Preparations for Stock Exchange Listing

Over a period of many months, RTI has been and continues to be in the process of serious negotiations for a Stock Exchange Listing. The current Board is acutely aware of previous commitments made in this regard and the expectations of Shareholders for listing. The process is necessarily slow and complicated and RTI must ensure that the interests of all Shareholders are maintained.

RTI is moving on a number of fronts in this regard including Stock Markets in the USA, Poland, New Zealand as well as the Australian Stock Exchange. Many options and variations for listing have been presented to us and as soon as the most appropriate course of action is chosen, all Shareholders will be informed of the details including proposed timelines.

Of the proposals that have been put forward to RTI to date, none have been considered to be in the best interests of Shareholders and that is why negotiations are continuing. It needs to be ensured that maximised results are achieved for all Shareholders so that RTI becomes the organisation it was planned to be and the World Leader in Recoilless Technology.

Establishing RTI Subsidiaries

RTI is well advanced in establishing a number of subsidiaries on a worldwide basis that will allow the Company to conduct business on a local level. The countries involved at present are USA, Poland and New Zealand.

USA - Recoilless Technologies International (USA) Inc.

RTI has a registered subsidiary in Minnesota, Minneapolis, USA that is currently non functional however plans are currently in progress for this entity to become operational. RTI is currently considering relocating the US entity to the State of Virginia where many US Defence Departments and private Defence Contractors are located. RTI has established contact with the Virginia Economic Development Partnership, who will provide assistance in establishing RTI's presence in Virginia and the relocation of the entity.

In addition, there is an RTI associate residing in Virginia who is currently preparing the ground work to enable RTI's US subsidiary to relocate to Virginia if this proves to be most suitable.

Poland - RTI Poland Sp. z.o.o (RTI Poland Limited Liability Company)

RTI is in the process of establishing an office in Poland and registering a subsidiary. This entity will be known as RTI Poland Sp. z.o.o. This will allow RTI to deal directly with organisations which are only permitted to deal with an entity registered in Poland. In addition, being centrally located in Europe becomes strategically advantageous to RTI as the company grows in the surrounding countries.

New Zealand - Recoilless Technologies International (New Zealand) Limited

On 22 November 2007, RTI was incorporated in New Zealand. Initially RTI (New Zealand) will operate from Christchurch and has found fertile grounds for the possible establishment of an additional Research and Development facility. Approaches are in the process of being made to a number of Government Agencies and private organisations to seek further support to expand the New Zealand operations. RTI expects to be able to raise funds and possibly list on the Stock Exchange in New Zealand in accordance with similar regulations as in Australia. This is another step forward to the global expansion of operations.



Future Fundraising Intentions

As a Research and Development company, RTI is dependent on fundraising until its commercialisation goals are achieved. With this in mind, and the level of Research and Development required in the time ahead, the Board of Directors has determined that in the short term, a second Prospectus will be issued for this purpose. Work is well advanced with the preparation of the Prospectus and it is expected to be released early in 2008. All current Shareholders will be informed prior to the release and will have the opportunity to receive a copy.

RTI is currently involved in advanced negotiations with a US based Facilitator who has initiated a campaign for potential major fundraising. If successful these funds will be used to further the research and development, establishing a leading corporate headquarters in America and list on the US Stock Exchange as soon as possible. The Facilitator is currently undertaking due diligence on the patents in conjunction with RTI's Patent Attorney.

Interim funding is also being sought via sophisticated and small investors and in line with the fundraising rules as defined by the Corporations Act 2001. In addition various Government Grants are being researched and those applicable to RTI being applied for. All these avenues of fundraising will continue to be pursued to ensure the success of the Company.

Signing of Letter of Intent with Huta Stalowa Wola S.A. (Poland)

On 26 January 2007 Huta Stalowa Wola S.A. (HSW) and RTI signed a Letter of Intent (LOI) in Stalowa Wola, Poland. Under this LOI, the parties agree to the possibility of future cooperation in utilizing both parties' Intellectual Property to develop certain weapons solutions according to the conditions of the LOI. Neither party is at liberty to reveal the contents of the LOI until further negotiations are concluded.

Huta Stalowa Wola S.A (HSW) was formed in 1939 in Stalowa Wola, Poland. From its inception HSW has produced high quality agricultural machinery, construction machinery, armaments and railway stock. In 1991 HSW was commercialised with the Polish Treasury as the major shareholder. The aim was to introduce efficiencies that would allow it to compete with equivalent enterprise in Western Europe. In 2006 the European Commission approved the contribution of Euro 17.3 million to allow further development of the company as HSW met all of the EU requirements to allow such a contribution towards the development of a restructured enterprise.

HSW continues to manufacture a large number of high quality products, especially armaments including small arms, artillery equipment, armoured vehicles and other military hardware. Recently, HSW was awarded a major contract to supply the newly formed Iraqi battalions. BAE Systems is now subcontracted to HSW to produce their Braveheart AS-90 turret for new Polish self propelled artillery.

The Braveheart turret will be manufactured in Poland for use in the Polish Artillery Program and fitted to an indigenously designed chassis.

HSW has successfully restructured and now employs a workforce of approximately 14,000 personnel. The staff of HSW are highly skilled and capable of producing equipment to very exacting standards.

Signing of Joint Commercialising Agreement with Tactical Aerospace Group (USA)

A Joint Commercialisation Agreement between RTI and Tactical Aerospace Group (TAG) was signed on 14 November 2006. TAG designs and manufactures Unmanned Aerial Vehicle Systems. An Unmanned Aerial Vehicle (UAV) is an aircraft that is remotely controlled and usually smaller than full scale.

The scope of the Joint Commercialisation Agreement between RTI and TAG is for the two parties to collaborate to initially incorporate a single-shot 7.62mm calibre recoilless weapon prototype to a UAV selected by TAG for the purposes of making one or more conceptual demonstrations to potential end users and research organisations and to publicise the results with a view to sourcing development funding that will facilitate further R&D and the commercialisation of weaponised UAVs and possibly other



special projects to be developed collaboratively by the parties. No exchange of proprietary intellectual property will take place under this Joint Commercialisation Agreement.

The restructure of the Board and overall organisation delayed progress on this project and as a result RTI re-established contact with TAG in July 2007. RTI has proposed that the process continues and TAG designate a suitable UAV so that RTI can commence works on adapting a 7.62mm calibre, single shot recoilless prototype to the UAV. RTI is currently awaiting a response from TAG.

Purchase of Metal Fabrication Company

A proposal to purchase a metal fabrications company was approved by the RTI Board on 6 September 2006 and was subject to a successful stock exchange listing. RTI is now looking to proceed with this purchase prior to a stock exchange listing if sufficient finance can be arranged. To this end negotiations are being held with various Banks and Financial Institutions to find the various alternatives available.

The Metal Fabrication Company provides specialised engineering and steel fabrication services to a diverse range of customers. It is an extremely successful and profitable business with excellent prospects into the future. The Company's facilities have the capabilities to support the development of weapon related and importantly non weapon related prototypes. The combination of its existing facilities, skills and equipment added to RTI's existing potential to create and develop, result in a powerful combination that will underpin the operational basis for RTI in the future.

The acquisition will strengthen RTI's base, balance sheet and financial position in general.

Provision of Weapons by Arms Company for Concept Demonstration

Negotiations have been proceeding for some time now and have culminated in an agreement reached at the Land Warfare Conference held in Adelaide in October 2007. A significant European Small Arms Company's senior officials agreed to provide RTI with weapons at no cost, to develop to "Proof of Concept Stage" with the adaptation of the Recoilless Technology. In addition they agreed to provide any necessary technical support and data required to assist with the project.

A comprehensive Research and Development plan has been prepared and the concept demonstrator is estimated to be completed within a 6 month time frame. In terms of weapons development, this is an extremely short period of time but RTI is committed to achieving the result required.

The Company is at the point of finalising the necessary documentation and agreements that will enable the weapons to be transferred to RTI's possession and allow the detailed work to begin. This project represents another major step forward in the commercialisation process of the Recoilless Technology.

Upon the achievement of 'Proof of Concept' stage, which is the successful firing of the weapon demonstrating the working capability of the Recoilless Technology, representatives from the small arms company will be invited to view the demonstration and following this event a commercial contract is expected to be negotiated for the licensing and manufacturing of weapons incorporating the Recoilless Technology.

As negotiations are currently underway, at this point RTI is not in a position to name the company involved.



SPECIAL RESOLUTIONS

Annexure C – Special Resolution 1 ‘Appointment of Auditor’

On 14 August 2006, the Audit Firm engaged by RTI, namely BDO Melbourne, merged with Deloitte Growth Solutions. The Audit personnel assigned to RTI’s annual audit have been retained by Deloitte Growth Solutions.

ABOUT DELOITTE

Deloitte Australia is a member of Deloitte Touche Tohmatsu, one of the world’s leading professional services organisations, with revenue of over US\$20 billion and 135,000 people in over 140 countries. We serve some of the world’s largest and most prestigious companies in the areas of audit, assurance and advisory, taxation, corporate finance and consulting.

In Australia, the footprint is similar. We serve clients across all sectors, including ASX 200 organisations, MNC subsidiary offices, middle market companies, and federal, state and local government entities. We generate approximately 50% of revenues from the top end of town and 50% from middle market organisations.

In 2006/7 our firm surpassed its growth target, reaching \$626 million, or 20% growth on the previous year’s revenues of \$520million. In just three years, Deloitte has turned the firm around from high growth and low profits, to profit growth at twice the rate of our revenues.

Since 2003 our focus has been on profitability and the integration of 192 new partners. This positioned us for planned growth of 20% in 2006/7, driven by our strong market position in corporate finance, forensic services and consulting as well as continuing strength in tax, risk management and internal audit, and strong growth in our audit and advisory practice driven by regulatory change.

Following a number of recent mergers, Deloitte now has 385 partners, over 4000 people and an expected revenue for FY08 of \$740 million.

For more information visit www.deloitte.com.au.

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15 August 2006

Ms J Vella
Recoilless International Technologies Corp Ltd
Factory 18
595 Chandler Road
KEYSBOROUGH VIC 3173

Dear Jane

BDO MELBOURNE BECOMES DELOITTE GROWTH SOLUTIONS

This letter is to officially notify you that with effect from 14th August 2006 the BDO Melbourne Practice has formally merged with Deloitte Growth Solutions.

It has been less than two months since we announced our merger intentions and we are delighted by the support we have received from clients, staff and associates.

Our integration program has progressed rapidly and smoothly. With our change of name now complete it is important that we update you on the next most important milestones in our integration plan and some implications which will arise.

Change of Name, Correspondence and Engagement Documentation

From now on, all our correspondence to you, including all future engagement letters, will be on the official letterhead of Deloitte legal entities. Due to the nature of our work our correspondence may appear on the letterhead of one or more Deloitte legal entities. Please address your replies to us accordingly where possible.

With this formal correspondence to you, the majority of our existing client contracts and engagement arrangements will simply roll over to our new legal entities. This is due to existing assignment clauses in our agreements or accepted professional practice in relation to the transmission of business.

Where an automatic rollover is not the case, we have already commenced separate correspondence with those clients who require a specific agreement.

We're moving and our contact details will change

Effective Monday 4th September our entire team will relocate from Bourke Street to the Deloitte offices in the Queen Victoria Building at 180 Lonsdale Street (corner of Russell and Lonsdale Streets).

Casual parking for clients is available under the new building and there are plenty of client meeting rooms and associated facilities.

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Deloitte

Our telephone numbers and email addresses will change. So closer to the move date I will provide you with full contact details of all the people you commonly liaise with.

We are also in the process of notifying our change of address to all third parties with whom we deal with in relation to our clients, including regulators, banks, brokers etc.

We have installed temporary redirection facilities for all our telephone, mail and email communication, so that correspondence coming through our old numbers and addresses will not be lost while clients and associated parties adjust to our changes.

All of this is occurring at no charge to our clients.

BDO House at 563 Bourke Street has been our home for over 12 years and it will be an emotional departure for us but we are confident that the modern and innovative facilities of the Deloitte offices will be warmly welcomed by our clients and people.

Our partners and people will be vacating BDO House and bidding it a fond farewell on Friday 1st September and as such the office will close a little early that day – at 4pm. We apologise for any inconvenience and trust you will appreciate the importance of this to our people and to the efficiency of our relocation.

Systems Integration and Our Services

You may be surprised to learn that we have already completed the majority of the integration of our IT systems with Deloitte, ahead of our physical relocation.

As well as the conversion to some new systems and the maintenance of others that were common to our two businesses, we have made arrangements for a few legacy systems to be maintained and phased out over time. In any case we do not expect you to notice any impact on the services we provide or your regular interactions with us.

Due to the system integration, in some cases our clients may receive separate BDO and Deloitte invoices which cover periods before and after the technical merger date, but we are trying to minimise this to reduce any inconvenience.

I hope this quick update helps to answer any immediate question you may have had about our merger, but if you have any questions at all, please call me.

Yours sincerely

Kirsty Black
Partner
DELOITTE TOUCHE TOHMATSU

Member of
Deloitte Touche Tohmatsu

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Annexure D – Special Resolution 3 ‘Authorised Capital’

The Board anticipates that extensive fund raising will be required to support working capital, research and development and further protection of the intellectual property for the commercialisation of the Recoilless Technology. Funding is also required to proceed with the projects as outlined in the Directors Report. The Board must ensure that sufficient authorised capital is available in order to accept planned sophisticated investments, release a second Prospectus and other fundraising when and if required in conjunction with the fundraising rules and regulations as defined in the Corporations Act 2001.

ORDINARY RESOLUTIONS

Annexure E – Ordinary Resolution 1 ‘Election of Director: Mr Richard Giza’



Mr Giza has been an Executive Director of RTI since the Company’s inception in March 2000.

Mr Giza, founder of RTI, is responsible for the research and development, architecture and engineering of the technology, in addition to maintaining RTI’s vision and goals and overseeing the global operations of the Company.

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 RTI may encounter and lead the Company into a very exciting future and new innovative areas of technological advancement.

Annexure F – Ordinary Resolution 2 ‘Election of Director: Mr Joseph ‘Vella’



Mr Vella has been an Executive Director of RTI since February 2001.

Mr Vella is a hands on entrepreneur with experience and interests in several businesses. As a founding director with Mr Giza, he has assisted with the development of models which led to working prototypes incorporating the Recoilless Technology. Mr Vella has been primarily responsible for RTI fundraising and the protection of the Recoilless Technology to date.

Mr Vella’s motivation is a testament to his belief in RTI and is a source of continuous aspiration for other members of the Company.

Annexure G – Ordinary Resolution 3 ‘Election of Director: Mr Geoffrey Morgan’



Mr Morgan joined the Board as an Executive Director and Chief Operations Officer in April 2007, and was recently appointed as Company Secretary.

Mr Morgan has over 20 years experience at Senior Management levels within the Victorian Government and has worked closely with Ministers of Parliament in numerous portfolio areas. Mr Morgan has had more than 10 years experience in the manufacturing industry and has also managed both capital and recurrent budgets.

Mr Morgan’s Senior Management and manufacturing experience is valuable to RTI as it moves into the next stage of development.



Annexure H – Ordinary Resolution 4 ‘Election of Director: Mr Adam Vella’



Mr Vella joined the Board as a Non Executive Director in March 2005. Mr Vella is a member of the Australian Clay Target Shooting Team. His associations and international success have brought invaluable national and international media attention for RTI and have also facilitated the development of relationships with gun manufacturers and suppliers worldwide.

Mr Vella undertakes activities in public relations and marketing as well as fund raising and business development.

Mr Vella is currently on a leave of absence from his Non Executive Director position as he prepares and trains for his 2008 Olympics campaign. Mr Vella has appointed Mr Joseph Vella as his Alternate Director during this period.

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