

# KTL Technologies Limited

ABN 75 009 089 981

## Appendix 4E

### Preliminary Final Report to the Australian Securities Exchange

|  |                          |
|--|--------------------------|
| <b>Name of Entity</b>                          | KTL Technologies Limited |
| <b>ABN</b>                                     | 75 009 089 981           |
| <b>Financial Year Ended</b>                    | 31 December 2008         |
| <b>Previous Corresponding Reporting Period</b> | 31 December 2007         |

### Results for Announcement to the Market

|  | \$                         | Percentage increase/(decrease) over previous corresponding period |
|--|----------------------------|---|
| Revenue from ordinary activities   | Nil                        | N/A   |
| Profit/(loss) from ordinary activities after tax attributable to members | (2,628,573)                | (215%)  |
| Net profit/(loss) for the period attributable to members                 | (2,628,573)                | (261%)  |
| <b>Dividends (distributions)</b>   | <b>Amount per security</b> | <b>Franked amount per security</b>                                |
| Final Dividend   | N/A                        | Nil cents   |
| Interim Dividend   | N/A                        | Nil cents   |
| Record date for determining entitlements to the dividends (if any)       |                            | N/A   |

### NTA Backing

|  | Current period | Previous corresponding period |
|--|----------------|-------------------------------|
| Net tangible asset backing per ordinary security (cents per share) | 1.0 cents      | 1.1 cents                     |

### Other Significant Information Needed by an Investor to Make an Informed Assessment of the Entity's Financial Performance and Financial Position

In December 2008 the Group disposed its entire Magnet Material segment (JHSM and BBMMT) and KTL Technologies Hong Kong Limited by in specie distribution. These companies were not discontinued operations or classified as held for sale as at 31 December 2008 and the comparative income statement has been re-presented to show the discontinued operation separately from continuing operations. Management committed to a plan to dispose these companies late in 2008 due to the strategic decision to solely focus on its mineral business.

### Details of Entities over which Control has been Gained or Lost during the Period

|  |   |
|--|---|
| <b>Name of entity (or group of entities)</b> | 1. KTL Technologies HK Limited (Hong Kong)<br>2. Jilin Huisheng Strong Magnet Company |
|--|---|

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KTL Technologies Ltd ABN 75 009 089 981

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|  |  |
|--|--|
|  | Limited (JHSM)(PRC) and its 51% owned subsidiary, Beijing Beililong Magnet Material Technology Co. Ltd (BBMMT) (PRC) |
| <b>Date control lost</b>   | 1. & 2. 24 December 2008   |
| <b>Consolidated profit / (loss) from ordinary activities since the date in the current period on which control was acquired.</b>                   | 1. \$53,501<br>2. (\$699,286)  |
| <b>Profit / (loss) from ordinary activities of the controlled entity (or group of entities) for the whole of the previous corresponding period</b> | 1. (\$22,720)<br>2. (\$302,079)  |

## **Commentary on the Results for the Period**

### **Significant features of operating performance:**

#### Capital Raising

During the 2008 financial year, the Company has raised 3,500,000 fully paid ordinary shares at 1 cent per share pursuant to exercise of options.

#### Magnetic Material Business

The commercial production of Hydrogenation Disproportionation Desorption Recombination of Anisotropic Bonded Neodymium Iron Boron Powder (HDDR powder) by Jilin Huisheng Strong Magnet Company Limited(JHSM) has commenced and an HDDR Powder production of 6 tonnes per week has been achieved continuously over a four week production period during March to April 2008.

As approved at the Company's EGM held on 15 February 2008, an aggregate of 50,000,000 ordinary shares was allotted and issued to the Key Employees of JHSM on 7 May 2008.

During the 2008 financial year, JHSM made the following achievements:

- Developed the compression moulding technology for production of micro-motor magnets under the technical co-operation project with Johnson Electrics. JHSM is currently proceeding to refine the design of compression moulding machineries to improve demagnetization control; and
- Filed application on HDDR ingredient and process patent and know-how protection code, and made a publication on bonded magnets which resulted in a substantial increase in awareness of the recent technological achievements of JHSM amongst the industry and a surge in enquiries from potential customers.

In 2009, apart from continual technological development and sales promotion, the major focus of

JHSM will be to co-operate with magnets manufacturers to develop efficient facilities which are capable of producing high quality magnet components from HDDR powder. This would fill up the current gap in the production chain linking to electromagnetic devices manufacturers.

#### Mundong Well Uranium, Copper and Lead Project E08/1609

During the 2008 financial year, the Company continued to maintain its 80% interest in the Exploration License Application 08/1609 Mundong Well Project.

The Company had placed its focus on company restructuring during the 2008 financial year and delayed the planned drill programme to explore the channel mineralisation of the Zone 4 prospect further evaluate the mineralisation at Walkers Prospect. Upon the finalisation of in specie distribution expected in early 2009, the Company will commence the drill programme and keep shareholders informed on key developments.

KTL will continue to seek out and add value to its mineral exploration portfolio by development and/or acquisition.

#### Cryo-Lag

The Company continues to maintain its Cryo-Lag patents and patent applications. In summary, the Company has now been granted a patent for Cryo-Lag in ten jurisdictions including Australia, USA and Europe. KTL awaits the award of a patent in one further jurisdiction.

KTL is still reviewing its strategy for the commercialization of the Cryo-Lag technology.

#### Significant Change in State of Affairs

On 6 November 2008, the 65% share ownership in JHSM was transferred from Jilin Australia Energy Technology Company Limited(JAET) to KTL Technologies Hong Limited(KTLHK). Both JAET and KTLHK were 100% owned by the Company at the time of this transaction. After the transaction, KTLHK owned the 65% share ownership of JHSM and 33.15% share ownership of Beililong Magnet Material Technology Co., Ltd (BBMMT) (JHSM's 51% owned subsidiary company Beijing).

At the Extraordinary Shareholders Meeting held on 16 December 2008, shareholders approved a capital reduction in the form of pro rata in specie distribution of KTLHK shares, which is conditional on compliance by the Company and KTLHK in all respects with the Corporations Act and the ASX Listing Rules. On 24 December 2008, the in specie distribution of KTLHK shares became effective and KTLHK is no longer a subsidiary of the Company.

The Company believes that the transaction is in the best interests of the shareholders, as all shareholders retain their interest in the development of the Company's manufacturing facilities in China through their shareholding in KTLHK and retain their current percentage ownership interest in the Company. The separation of the manufacturing assets allows the Company to specifically focus on its uranium activities and also explore other mineral opportunities. Capital raising in the future with a single focus for each entity is also believed to be more achievable.

The financial effect of the in-specie distribution has been brought to account at balance date and the Company's equity was reduced by \$580,612.

**Future Developments, Prospects and Strategies**

The Company is actively carrying out negotiations with the aim to have a stable, financially capable strategic shareholder, so as to enable the Company to continue to implement its strategy of creating long term value growth for all shareholders.

As a result of the Company's activities in 2008, at 31 December 2008, the Company has cash of \$535,914, total consolidated assets of \$4.8 million and net assets of \$4.5 million which will enable it to continue its business activities in the PRC and in Australia.


The results of these business activities was a loss to the consolidated entity of \$2,628,573 (2007 – Loss of \$727,061).

**The earnings per security and the nature of any dilution aspects:**

Please refer to attached preliminary final report for the year ended 31 December 2008.

**Audit/Review Status**

|  |                                     |  |                          |
|--|-------------------------------------|--|--------------------------|
| <b>This report is based on accounts to which one of the following applies: (Tick one)</b>  |                                     |  |                          |
| The accounts have been audited   | <input type="checkbox"/>            | The accounts have been subject to review           | <input type="checkbox"/> |
| The accounts are in the process of being audited or subject to review  | <input checked="" type="checkbox"/> | The accounts have not yet been audited or reviewed | <input type="checkbox"/> |
| <b>If the account have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:</b> |                                     |  |                          |
| N/A  |                                     |  |                          |
| <b>If the account have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification:</b>                             |                                     |  |                          |
| N/A  |                                     |  |                          |

|                                    |   |
|------------------------------------|---|
| <b>Signed by Company Secretary</b> |  |
| <b>Print Name</b>                  | Rachel Wong   |
| <b>Date</b>                        | 27 February 2009  |

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INCOME STATEMENT  
For the Year Ended 31 December 2008

|  |    | <b>Consolidated<br/>2008</b> | <b>Consolidated<br/>2007</b> | <b>Parent<br/>2008</b> | <b>Parent<br/>2007</b> |
|--|----|------------------------------|------------------------------|------------------------|------------------------|
|  |    | \$                           | \$                           | \$                     | \$                     |
| <b>Continuing Operations</b>                         |    |                              |                              |                        |                        |
| Revenue  | 9  | -                            | -                            | -                      | -                      |
| Cost of goods sold                                   |    | -                            | -                            | -                      | -                      |
| <b>Gross profit</b>                                  |    | -                            | -                            | -                      | -                      |
| Discount on acquisition of subsidiary                |    | -                            | 1,425                        | -                      | -                      |
| Gain on disposal of discontinued operations          |    | -                            | -                            | -                      | -                      |
| Foreign exchange gain                                |    | -                            | -                            | <b>746,136</b>         | -                      |
| Depreciation   |    | <b>(4,607)</b>               | -                            | -                      | -                      |
| Selling expenses                                     |    | -                            | -                            | -                      | -                      |
| Consultants  |    | <b>(493,771)</b>             | (170,189)                    | <b>(475,605)</b>       | (168,409)              |
| Director payments                                    |    | <b>(201,328)</b>             | (260,789)                    | <b>(201,328)</b>       | (260,789)              |
| ASX Listing and share registry                       |    | <b>(34,318)</b>              | (23,093)                     | <b>(34,318)</b>        | (23,093)               |
| Share based payments                                 |    | <b>(1,250,000)</b>           | -                            | <b>(1,250,000)</b>     | -                      |
| Travel   |    | <b>(4,302)</b>               | (32,810)                     | <b>(4,058)</b>         | (11,200)               |
| Staff salaries                                       |    | <b>(15,236)</b>              | -                            | -                      | -                      |
| Property and land taxes                              |    | -                            | -                            | -                      | -                      |
| Other administrative expenses                        |    | <b>(73,555)</b>              | (81,860)                     | <b>(69,156)</b>        | (63,354)               |
| <b>Results from operating activities</b>             |    | <b>(2,077,117)</b>           | (567,316)                    | <b>(1,288,329)</b>     | (526,845)              |
| Finance Income                                       | 9  | <b>94,329</b>                | 58,846                       | <b>303,014</b>         | 111,606                |
| Finance expense                                      |    | -                            | -                            | -                      | -                      |
| <b>Net finance income</b>                            |    | <b>94,329</b>                | 58,846                       | <b>303,014</b>         | 111,606                |
| Loss before income tax                               |    | <b>(1,982,788)</b>           | (508,470)                    | <b>(985,315)</b>       | (415,239)              |
| Income Tax Expense                                   | 10 | -                            | -                            | -                      | -                      |
| <b>Loss from continuing operations</b>               |    | <b>(1,982,788)</b>           | (508,470)                    | <b>(985,315)</b>       | (415,239)              |
| <b>Discontinued operation</b>                        |    |                              |                              |                        |                        |
| Loss from discontinued operations, net of income tax | 8  | <b>(645,785)</b>             | (324,799)                    | -                      | -                      |
| <b>Loss for the period</b>                           |    | <b>(2,628,573)</b>           | (833,269)                    | <b>(985,315)</b>       | (415,239)              |
| <b>Attributable to:</b>                              |    |                              |                              |                        |                        |
| Members of the parent                                |    | <b>(2,628,573)</b>           | (833,269)                    | <b>(985,315)</b>       | (415,239)              |
| Minority Interest                                    |    | -                            | 106,208                      | -                      | -                      |
| <b>Loss for the period</b>                           |    | <b>(2,628,573)</b>           | (727,061)                    | <b>(985,315)</b>       | (415,239)              |
| Earnings per share – Continuing Operations           |    |                              |                              |                        |                        |
| Basic loss per share (cents)                         | 18 | <b>(0.47)</b>                | (0.17)                       |                        |                        |
| Diluted loss per share (cents)                       | 18 | <b>(0.47)</b>                | (0.17)                       |                        |                        |
| Earnings per share – Equity holders of the company   |    |                              |                              |                        |                        |
| Basic loss per share (cents)                         | 18 | <b>(0.63)</b>                | (0.24)                       |                        |                        |
| Diluted loss per share (cents)                       | 18 | <b>(0.63)</b>                | (0.24)                       |                        |                        |

The income statements are to be read in conjunction with the attached notes.

STATEMENT OF CHANGES IN EQUITY  
 For the Year Ended 31 December 2008

Consolidated

| In AUD                                   | Share Capital    | Translation reserve | Option reserve | Accumulated Losses | Total            | Minority Interest | Total equity     |
|--|------------------|---------------------|----------------|--------------------|------------------|-------------------|------------------|
|  | \$               | \$                  | \$             | \$                 | \$               | \$                | \$               |
| Balance at 1 January 2007                | 2,393,667        | -                   | 427,654        | (1,172,099)        | 1,649,222        | -                 | 1,649,222        |
| Foreign currency translation             | -                | 171,975             | -              | -                  | 171,975          | -                 | 171,975          |
| Loss for the period                      | -                | -                   | -              | (727,061)          | (727,061)        | (106,208)         | (833,269)        |
| Minority interest acquired on subsidiary | -                | -                   | -              | -                  | -                | 433,287           | 433,287          |
| Issue of share capital                   | 3,949,950        | -                   | -              | -                  | 3,949,950        | -                 | 3,949,950        |
| Cost of share capital                    | (13,404)         | -                   | -              | -                  | (13,404)         | -                 | (13,404)         |
| Balance at 31 December 2007              | <b>6,330,213</b> | <b>171,975</b>      | <b>427,654</b> | <b>(1,899,160)</b> | <b>5,030,682</b> | <b>327,079</b>    | <b>5,357,761</b> |
| Balance at 1 January 2008                | 6,330,213        | 171,975             | 427,654        | (1,899,160)        | 5,030,682        | 327,079           | 5,357,761        |
| Foreign currency translation             | -                | 845,508             | -              | -                  | 845,508          | -                 | 845,508          |
| Loss for the period                      | -                | -                   | -              | (2,628,573)        | (2,628,573)      | -                 | (2,628,573)      |
| Disposal of minority interests           | -                | -                   | -              | -                  | -                | (327,079)         | (327,079)        |
| Issue of share capital                   | 53,850           | -                   | (18,850)       | -                  | 35,000           | -                 | 35,000           |
| Share based payment                      | 1,250,000        | -                   | -              | -                  | 1,250,000        | -                 | 1,250,000        |
| Cost of share capital                    | (9,100)          | -                   | -              | -                  | (9,100)          | -                 | (9,100)          |
| Balance at 31 December 2008              | <b>7,624,963</b> | <b>1,017,483</b>    | <b>408,804</b> | <b>(4,527,733)</b> | <b>4,523,517</b> | <b>-</b>          | <b>4,523,517</b> |

Parent

|  | Share Capital    | Option Reserve | Accumulated Losses | Total            |
|--|------------------|----------------|--------------------|------------------|
|  | \$               | \$             | \$                 | \$               |
| Balance 1 January 2007                             | 2,393,667        | 427,654        | (1,164,217)        | 1,657,104        |
| Net income (expense) recognised directly in equity |                  | -              | -                  | -                |
| Loss for the period                                |                  | -              | (415,239)          | (415,239)        |
| Issue of share capital                             | 3,949,950        | -              | -                  | 3,949,950        |
| Costs of share capital                             | (13,404)         | -              | -                  | (13,404)         |
| Balance as at 31 December 2007                     | <b>6,330,213</b> | <b>427,654</b> | <b>(1,579,456)</b> | <b>5,178,411</b> |
| Balance 1 January 2008                             | 6,330,213        | 427,654        | (1,579,456)        | 5,178,411        |
| Net income (expense) recognised directly in equity |                  | -              | -                  | -                |
| Loss for the period                                |                  | -              | (985,315)          | (985,315)        |
| Issue of share capital                             | 53,850           | (18,850)       | -                  | 35,000           |
| Share based payment                                | 1,250,000        | -              | -                  | 1,250,000        |
| Costs of share capital                             | (9,100)          | -              | -                  | (9,100)          |
| Balance as at 31 December 2008                     | <b>7,624,963</b> | <b>408,804</b> | <b>(2,564,771)</b> | <b>5,468,996</b> |

The statements of changes in equity are to be read in conjunction with the attached notes.

BALANCE SHEET  
As at 31 December 2008

|  |           | <b>Consolidated</b> | <b>Consolidated</b> | <b>Parent</b>      | <b>Parent</b> |
|--|-----------|---------------------|---------------------|--------------------|---------------|
|  |           | <b>2008</b>         | <b>2007</b>         | <b>2008</b>        | <b>2007</b>   |
|  |           | <b>\$</b>           | <b>\$</b>           | <b>\$</b>          | <b>\$</b>     |
| <b>ASSETS</b>  |           |                     |                     |                    |               |
| <b>CURRENT ASSETS</b>                                      |           |                     |                     |                    |               |
| Cash and cash equivalents                                  | <b>16</b> | <b>535,914</b>      | 2,864,818           | <b>535,158</b>     | 898,240       |
| Trade and other receivables                                | <b>15</b> | <b>15,095</b>       | 585,952             | <b>7,440</b>       | 2,044         |
| Inventories  | <b>14</b> | <b>-</b>            | 427,600             | <b>-</b>           | -             |
| Other financial assets                                     | <b>17</b> | <b>1,546,110</b>    | 692,213             | <b>637,826</b>     | 16,879        |
| Total current assets                                       |           | <b>2,097,119</b>    | 4,570,583           | <b>1,180,424</b>   | 917,163       |
| <b>NON-CURRENT ASSETS</b>                                  |           |                     |                     |                    |               |
| Property, plant and equipment                              | <b>11</b> | <b>34,640</b>       | 6,441,267           | <b>-</b>           | -             |
| Other financial assets                                     | <b>17</b> | <b>2,112,289</b>    | -                   | <b>4,485,781</b>   | 4,348,623     |
| Exploration and evaluation expenditure                     | <b>12</b> | <b>476,678</b>      | 450,953             | <b>-</b>           | -             |
| Intangible assets  | <b>13</b> | <b>113,898</b>      | 1,197,368           | <b>113,898</b>     | 105,750       |
| Total non-current assets                                   |           | <b>2,737,505</b>    | 8,089,588           | <b>4,599,679</b>   | 4,454,373     |
| <b>TOTAL ASSETS</b>  |           | <b>4,834,624</b>    | 12,660,171          | <b>5,780,103</b>   | 5,371,536     |
| <b>LIABILITIES</b>   |           |                     |                     |                    |               |
| <b>CURRENT LIABILITIES</b>                                 |           |                     |                     |                    |               |
| Trade and other payables                                   | <b>20</b> | <b>311,107</b>      | 1,800,429           | <b>311,107</b>     | 193,125       |
| Interest-bearing loan                                      | <b>19</b> | <b>-</b>            | 1,967,431           | <b>-</b>           | -             |
| Total current liabilities                                  |           | <b>311,107</b>      | 3,767,860           | <b>311,107</b>     | 193,125       |
| <b>NON CURRENT LIABILITIES</b>                             |           |                     |                     |                    |               |
| Interest-bearing loan                                      | <b>19</b> | <b>-</b>            | 3,534,550           | <b>-</b>           | -             |
| Total non-current liabilities                              |           | <b>-</b>            | 3,534,550           | <b>-</b>           | -             |
| <b>TOTAL LIABILITIES</b>                                   |           | <b>311,107</b>      | 7,302,410           | <b>311,107</b>     | 193,125       |
| <b>NET ASSETS</b>  |           | <b>4,523,517</b>    | 5,357,761           | <b>5,468,996</b>   | 5,178,411     |
| <b>EQUITY</b>  |           |                     |                     |                    |               |
| Share capital  | <b>28</b> | <b>7,624,963</b>    | 6,330,213           | <b>7,624,963</b>   | 6,330,213     |
| Option reserve   | <b>29</b> | <b>408,804</b>      | 427,654             | <b>408,804</b>     | 427,654       |
| Foreign exchange translation reserve                       |           | <b>1,017,483</b>    | 171,975             | <b>-</b>           | -             |
| Accumulated losses   |           | <b>(4,527,733)</b>  | (1,899,160)         | <b>(2,564,771)</b> | (1,579,456)   |
| Total equity attributable to equity holders of the Company |           | <b>4,523,517</b>    | 5,030,682           | <b>5,468,996</b>   | 5,178,411     |
| Minority interest  |           | <b>-</b>            | 327,079             | <b>-</b>           | -             |
| <b>TOTAL EQUITY</b>  |           | <b>4,523,517</b>    | 5,357,761           | <b>5,468,996</b>   | 5,178,411     |

*The balance sheets are to be read in conjunction with the attached notes.*

CASH FLOW STATEMENT  
For the Year Ended 31 December 2008

|   | Note | Consolidated<br>2008 | Consolidated<br>2007 | Parent<br>2008 | Parent<br>2007 |
|---|------|----------------------|----------------------|----------------|----------------|
| Cash flows from operating activities                        |      | \$                   | \$                   | \$             | \$             |
| Payments to suppliers and employees                         |      | (1,259,393)          | (866,070)            | (610,666)      | (393,445)      |
| Receipt from customers                                      |      | -                    | 75,654               | -              | -              |
| Interest received   |      | 35,947               | 61,191               | 32,226         | 50,267         |
| Net cash from/(used in) operating activities                | 16b  | (1,223,446)          | (729,225)            | (578,440)      | (343,178)      |
| Cash flows from investing activities                        |      |                      |                      |                |                |
| Disposal of discontinued operation, net of cash disposed of |      | (334,912)            |                      |                |                |
| Payments to subsidiaries                                    |      | -                    | -                    | -              | (819,519)      |
| Payment for property, plant and equipment                   |      | (805,585)            | (463,918)            | -              | -              |
| Payment for acquisition of subsidiary, net                  | 7    | -                    | (146,406)            | -              | -              |
| Payment for exploration and evaluation                      |      | (25,725)             | (69,315)             | (25,725)       | (69,315)       |
| Payment of research and development costs                   |      | (8,148)              | (31,949)             | (8,148)        | (31,949)       |
| Net cash used in investing activities                       |      | (1,174,370)          | (711,588)            | (33,873)       | (920,783)      |
| Cash flows from financing activities                        |      |                      |                      |                |                |
| Proceeds from issue of shares and options                   |      | 35,000               | 3,966,200            | 35,000         | 979,950        |
| Costs of issue of shares                                    |      | (9,100)              | (13,404)             | (9,100)        | (13,404)       |
| Interest paid   |      | (12,307)             | (63,697)             | -              | -              |
| Proceeds from borrowings                                    |      | 2,063,341            | -                    | -              | -              |
| Repayment of borrowings                                     |      | (1,795,916)          | (699,339)            | 300,000        | -              |
| Loan to subsidiaries  |      | -                    | -                    | (76,669)       | (10,868)       |
| Net cash provided by financing activities                   |      | 281,018              | 3,189,760            | 249,231        | 955,678        |
| Net increase (decrease) in cash and cash equivalents        |      | (2,116,798)          | 1,748,947            | (363,082)      | (308,283)      |
| Cash and cash equivalents at the beginning of the period    |      | 2,864,818            | 1,206,524            | 898,240        | 1,206,523      |
| Effect of exchange rate fluctuations on cash held           |      | (212,106)            | (90,653)             | -              | -              |
| Cash and cash equivalents at the end of the period          |      | 535,914              | 2,864,818            | 535,158        | 898,240        |

*The cash flow statements are to be read in conjunction with the attached notes.*

## NOTE 1 – CORPORATE INFORMATION

KTL Technologies Limited ("the Company") is incorporated in Australia and is the parent entity of the KTL group of companies. The address of the Company's registered office is Level 34, AMP Centre, 50 Bridge Street Sydney, NSW 2000 Australia. The consolidated financial statements of the Company as at and for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities". The Group primarily is involved in the commercialization of its Cryo-Lag assets (industrial insulation patents), exploration and of manufacture and sales of magnetic materials (see note 6).

## NOTE 2 – BASIS OF PREPARATION

### 2a. Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

### 2b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value. The methods used to measure fair values are discussed further in note 4.

**2c. Going Concern**

At 31 December 2008, the consolidated entity and the parent entity had incurred losses for the year ended of \$2,628,573 and \$985,315 respectively, including share based payments of \$1.25 million.

The financial report of KTL Technologies Limited has been prepared on a going concern basis, based on the following reasons:

- Following the in-specie distribution of KTL Technologies Hong Kong, Jilin Huisheng Strong Magnet Company Ltd and of Beijing Beililong Magnet Material Technology Co. Ltd, the Company has no external debts outstanding.
- The directors are confident that the Company's interest bearing loans to director-related entities will be repaid in 2009 and 2010 in accordance with the loan agreements.
- Post year ended 31 December 2008, a total of approximately \$0.46 million of inter-company loans have been repaid.
- The directors have reviewed the working capital requirements for the next 12 months from reporting date and believe that the Company has sufficient funds to continue to operate;
- The Company is also considering debt and/or equity raising options for use as working capital. The directors are confident that additional debt and/or equity raising is available to the entity, if required.

Based on the cash flow forecast and the debt and/or equity raising options available to the company, the directors of the company are satisfied that, the going concern basis of preparation is appropriate. The financial report has therefore been prepared on a going concern basis, which assumes the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

No allowance for such circumstances has been made in the Financial Report.

**2d. Functional and presentation currency**

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

**2e. Use of estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements concern the future life of Cryo-Lag.

The following key assumption has been made concerning the future and other key sources of estimation uncertainty at the balance date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

It is currently assumed that Cryo-Lag will generate profitable results in the future, subject to a successful outcome of the current commercialisation activities. Should this assumption prove incorrect then material adjustments may have to be made for impairment losses in respect of Cryo-Lag.

**2f. New accounting standards and interpretations**

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption for financial reporting periods beginning 1 January 2009 but have not been applied in preparing the financial report.

| New or revised requirement   | Effective for annual reporting periods beginning/ending on or after | More information                                     | Impact on Group  |
|--|---|--|--|
| <p><i>AASB 101 Presentation of Financial Statements (Revised September 2007), AASB 2007-8 Amendments to Australian Accounting Standards &amp; Interpretations and AASB 2007-10 Further Amendments to AASBs arising from AASB 101</i></p> <p>The revised standard affects the presentation of changes in equity and comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other AASB standards.</p> | Beginning 1 January 2009  | This will be adopted for the year ended 30 June 2010 | This is a disclosure standard, so will have no direct impact on amounts in the financial report, other than amendments to disclosures. |

| New or revised requirement  | Effective for annual reporting periods beginning/ending on or after | More information                                     | Impact on Group  |
|---|---|--|--|
| <p><i>AASB 123 Borrowing Costs (Revised), AASB 2007-6 Amendments to Australian Accounting Standards 1, 101, 107, 111, 116, 138 and Interpretations 1 &amp; 12</i></p> <p>This revision eliminates the option to expense borrowing costs on qualifying assets and requires that they be capitalised. The Amending Standard eliminates reference to the expensing option in various other pronouncements.</p>   | Beginning 1 January 2009  | This will be adopted for the year ended 30 June 2010 | The adoption of this standard will have no impact on the group.  |
| <p><i>AASB 3 Business Combinations (Revised), AASB 127 Consolidated and Separate Financial Statements (Amended), AASB 2008-3 Amendments to AASBs arising from AASB 3 and AASB 127</i></p> <p>This revision changes the application of acquisition accounting for business combinations and accounting for non-controlling interests. The revised and amended standards incorporate many changes which will have a significant impact on the profit and loss for entities entering into business combinations.</p> | Beginning 1 July 2009   | This will be adopted for the year ended 30 June 2010 | The impact of this standard on the group has not yet been determined.  |
| <p><i>AASB 8 Operating Segments, AASB 2007-3 Amendments to Australian Accounting Standards 5, 6, 102, 107, 119, 127, 134, 136, 1023 &amp; 1038 arising from AASB 8</i></p> <p>This standard supersedes AASB 114 Segment Reporting, introducing a US GAAP approach of management reporting as part of the convergence project with FASB.</p>   | Beginning 1 January 2009  | This will be adopted for the year ended 30 June 2010 | AASB 8 is a disclosure standard, so will have no direct impact on amounts in the financial report, other than amendments to disclosures. |
| <p><i>AASB 2008-1 Amendments to Australian Accounting Standards: Share-Based Payments: Vesting Conditions and Cancellations</i></p> <p>This clarifies that vesting conditions comprise service conditions and performance conditions only and that other features of a share-based payment transaction are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.</p>   | Beginning 1 January 2009  | This will be adopted for the year ended 30 June 2010 | The impact of this standard on the group has not yet been determined.  |
| <p><i>AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i></p> <p>This amends and clarifies the following standards AASB 101, AASB 118, AASB 127 and AASB 136 for the treatment of determining the cost of an investment in a subsidiary, jointly controlled entity or associate.</p>  | Beginning 1 January 2009  | This will be adopted for the year ended 30 June 2010 | The impact of this standard on the group has not yet been determined.  |

| New or revised requirement  | Effective for annual reporting periods beginning/ending on or after | More information                                     | Impact on Group   |
|---|---|--|---|
| <p><i>Interpretation 17 Distributions of Non-cash Assets to Owners</i></p> <p>This Interpretation provides guidance on how an entity should measure distributions of assets other than cash when it pays dividends to its owners, except for common control transactions.</p> | Beginning 1 January 2009  | This will be adopted for the year ended 30 June 2010 | The impact of this standard on the group has not yet been determined. |

### NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

#### 3a Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

##### (ii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity. Any cash paid for the acquisition is recognised directly in equity.

##### (iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

#### 3b Foreign currency

##### (i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised directly in equity (see (ii) below).

##### (ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Australian dollars at exchange rates at the dates of the transactions.

The income and expenses of foreign operations in hyperinflationary economies are translated to Australian dollars at the exchange rate at the reporting date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, their financial statements for the current period are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

Foreign currency differences are recognised directly in equity. Such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

### **3c Financial Assets and Financial Liabilities**

Financial assets and financial liabilities are recognised on the balance sheet when the company becomes party to the contractual provisions of the financial instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the entity. A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets and financial liabilities classified as held for trading are measured at fair value through profit or loss. Upon initial recognition a financial asset or financial liability is designated as at fair value through profit or loss when:

- (a) an entire contract containing one or more embedded derivatives is designated as a financial asset or financial liability at fair value through profit or loss.
- (b) doing so results in more relevant information, because either:
  - (i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising gains or losses on them on different bases.
  - (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured are not designated as at fair value through profit or loss.

A gain or loss arising from a change in the fair value of a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss.

Financial assets not measured at fair value comprise:

- (a) loans and receivables being non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest rate method.
- (b) held-to-maturity investments being non-derivative financial assets with fixed or determinable payments and fixed maturity that will be held to maturity. These are measured at amortised cost using the effective interest method.
- (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. These are measured at cost together with derivatives that are linked to and must be settled by the delivery of such investments.

Available-for-sale financial assets are non-derivative financial assets which are designated as available-for-sale or that are not classified as loans and receivables, held-to-maturity investments or financial assets as at fair value through profit or loss.

A gain or loss arising from a change in the fair value of an available-for-sale financial asset is recognised directly in equity, through the statement of changes in equity (except for impairment losses and foreign exchange gains and losses) until the financial asset is derecognised at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Regular way purchases of financial assets are accounted for as follows:

- financial assets held for trading - at trade date
- held-to-maturity investments - at trade date
- loans and receivables - at trade date
- available-for-sale financial assets - at trade date

Except for the following all financial liabilities are measured at amortised cost using the effective interest rate method.

- (a) financial liabilities at fair value through profit and loss and derivatives that are liabilities measured at fair value.
- (b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or are accounted for using the continuing involvement approach.

The amortised cost of a financial asset or a financial liability is the amount initially recognised minus principal repayments, plus or minus cumulative amortisation of any difference between the initial amount and maturity amount and minus any write-down for impairment or uncollectability.

### **3d Property, plant and equipment**

#### **Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

#### **Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

#### **Depreciation**

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Plant and buildings 25 years  
Motor vehicles 8 years  
Production equipment 10 years  
Office equipment 5-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

### **3e Intangible assets**

#### **Goodwill**

Goodwill (discount on acquisition) arises on the acquisition of subsidiaries, associates and jointly controlled entities.

Acquisitions on or after 1 January 2003

For acquisitions on or after 1 January 2003, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (discount on acquisition), it is recognised immediately in profit or loss.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

#### Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

#### Research and Development Expenditure

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets arising from development activities are recognised when resources are available to complete the assets and future economic benefits from use or sale of the assets is probable. The directors have currently assessed the useful life of the intangible asset as indefinite because it awaits the result of the commercialisation of Cryo-Lag. In any event, Directors have assessed realisable value to be higher than cost.

#### Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

#### Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

#### Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Capitalised development costs 5-7 years

#### 3f Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognised on the Group's balance sheet. Investment property held under an operating lease is recognised on the Group's balance sheet at its fair value.

#### 3g Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. The cost of inventory may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventory.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

#### 3h Impairment

##### Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

#### **Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **3i Share-based payment arrangements**

Goods or services received or acquired in a share-based payment transaction are recognised as a increase in equity if the goods or services were received in an equity-settled share-based payment transaction or as a liability if the goods and services were acquired in a cash settled share-based payment transaction.

For equity-settled share-based transactions, goods or services received are measured directly at the fair value of the goods or services received provided this can be estimated reliably. If a reliable estimate cannot be made the value of the goods or services is determined indirectly by reference to the fair value of the equity instrument granted.

Transactions with employees and others providing similar services are measured by reference to the fair value at grant date of the equity instrument granted.

#### **3j Revenue**

##### **Sales of goods**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

##### **Interest revenue**

Interest revenue is recognised using the effective interest method. It includes the amortisation of any discount or premium.

### **3k Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

### **3l Exploration and Evaluation Costs**

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest. Exploration and evaluation costs are carried forward where the right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial year the decision is made. Each area of interest is also reviewed at the end of each accounting year and accumulated costs written off to the extent that they will not be recoverable in the future.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried forward exploration, evaluation and development costs are amortised on a units of production basis over the life of the economically recoverable reserves.

### **3m Income Taxes**

Income taxes are accounted for using the comprehensive balance sheet liability method whereby:

- the tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- current and deferred tax is recognised as income or expense except to the extent that the tax relates to equity items or to a business combination;
- a deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled.

### **3n Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

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

### **3o Finance income and expenses**

Finance income comprises interest income on funds invested that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

### **3p Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

### **3q Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure. Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

### **3r Receivables**

Trade accounts and notes receivable and other receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and provisions for doubtful accounts.

### **3s Trade and Other Payables**

Trade accounts, other payables and accrued liabilities represented the principal amounts outstanding at balance date plus, where applicable, any accrued interest.

### **3t Contingent Liabilities**

A contingent loss is recognised as an expense and a liability if it is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability incurred and, a reasonable estimate of the amount of the resulting loss can be made.

### **3u Events after the Balance Sheet Date**

Assets and liabilities are adjusted for events occurring after the balance date that provide evidence conditions existing at the balance date. Important after balance date events, which do not meet this criterion, are disclosed where relevant.

## **NOTE 4 - DETERMINATION OF FAIR VALUES**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### **Property, plant and equipment**

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

### **Intangible assets**

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

### **Inventories**

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

#### **Trade and other receivables**

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

#### **Share-based payment transactions**

The fair value of employee stock options is measured using a binomial lattice model. The fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

### **NOTE 5 – FINANCIAL RISK MANAGEMENT**

#### **Overview**

The Company and Group have exposure to the following risks from their use of financial instruments:

- credit risk
- interest rate risk
- liquidity risk
- market risk
- currency risk

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities. The Company and Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Company's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and Group.

#### **Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. For the Company it arises from receivables due from director-related entities.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk.

#### **Interest Rate Risk**

The Company's principal financial instruments comprise cash and short term deposits. The main purpose of the financial instruments is to earn the maximum amount of interest at a low risk to the Company. The Company also has other financial instruments such as trade debtors and creditors which arise directly from its operations. For the period under review, it has been the Company's policy not to trade in financial instruments.

The Company's exposure to interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate for each class of financial assets and financial liabilities. The Company's interest-bearing loans are fixed rate instruments and therefore this risk is minimal.

#### **Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**Currency risk**

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar (AUD), but also the Chinese Renminbi (RMB) and Hong Kong Dollar (HKD). The currencies in which these transactions primarily are denominated are AUD, RMB and HKD.

**NOTE 6 – SEGMENT REPORTING**

Segment information is presented in respect of the consolidated entity's business segments, which are the primary basis of reporting. The business-reporting format reflects the consolidated entity's management structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue and corporate assets and expenses.

***Business segments***

The consolidated entity's operations in 2008 are managed in Australia. The consolidated entity comprises of the following main business segments:

*Industrial insulation - the industrial insulation products industry and the commercialisation of its Cryo-Lag assets.*

*Exploration - the Company's subsidiary commenced exploring for minerals in the 2006 financial year.*

*Magnet manufacturing – see note 7.*

***Geographical segments***

The consolidated entities' offices are operated in Australia and China. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

**NOTE 6 – SEGMENT REPORTING**

**Business segments**

|                                       | Industrial Insulation |         | Exploration |         | Magnet Material* (Discontinued) |            | Unallocated |           | Eliminations |             | Consolidated |            | Less Magnet Material* (Discontinued) |          | Continuing operations |           |
|---------------------------------------|-----------------------|---------|-------------|---------|---------------------------------|------------|-------------|-----------|--------------|-------------|--------------|------------|--------------------------------------|----------|-----------------------|-----------|
|                                       | 2008                  | 2007    | 2008        | 2007    | 2008                            | 2007       | 2008        | 2007      | 2008         | 2007        | 2008         | 2007       | 2008                                 | 2007     | 2008                  | 2007      |
| In AUD                                |                       |         |             |         |                                 |            |             |           |              |             |              |            |                                      |          |                       |           |
| <b>Revenue</b>                        |                       |         |             |         |                                 |            |             |           |              |             |              |            |                                      |          |                       |           |
| Revenue from external customers       | -                     | -       | -           | -       | 266,143                         | 49,407     | -           | -         | -            | -           | 266,143      | 49,407     | (266,143)                            | (49,407) | -                     | -         |
| Total revenue from external customers | -                     | -       | -           | -       | 266,143                         | 49,407     | -           | -         | -            | -           | 266,143      | 49,407     | (266,143)                            | (49,407) | -                     | -         |
| Unallocated revenue                   |                       |         |             |         | -                               | -          |             |           |              |             | -            | -          |                                      |          | -                     | -         |
| Total revenue                         | -                     | -       | -           | -       | 266,143                         | 49,407     | -           | -         | -            | -           | 266,143      | 49,407     | (266,143)                            | (49,407) | -                     | -         |
| <b>Operating result</b>               |                       |         |             |         |                                 |            |             |           |              |             |              |            |                                      |          |                       |           |
| Segment result                        | -                     | -       | -           | -       | (645,785)                       | (274,910)  | -           | -         | -            | -           | (645,785)    | (274,910)  | 645,785                              | 274,910  | -                     | -         |
| Unallocated expenses                  | -                     | -       | -           | -       | -                               | -          | (2,077,117) | (508,470) | -            | -           | (2,077,117)  | (508,470)  | -                                    | -        | (2,077,117)           | (508,470) |
| Profit before financing costs         |                       |         |             |         |                                 |            |             |           |              |             | (2,772,902)  | (783,380)  | 645,785                              | 274,910  | (2,077,117)           | (508,470) |
| Net finance income (expense)          | -                     | -       | -           | -       | -                               | (49,889)   | 94,329      | -         | -            | -           | 94,329       | (49,889)   | -                                    | 49,889   | 94,329                | -         |
| Income tax expense                    | -                     | -       | -           | -       | -                               | -          | -           | -         | -            | -           | -            | -          | -                                    | -        | -                     | -         |
| Profit for the period                 |                       |         |             |         |                                 |            |             |           |              |             | (2,628,573)  | (833,269)  | 645,785                              | 324,799  | (1,982,788)           | (507,098) |
| Depreciation                          | -                     | -       | -           | -       | (209,388)                       | (5,925)    | (4,607)     | -         | -            | -           | (213,995)    | (5,925)    |                                      |          |                       |           |
| Non-cash expenses                     |                       |         |             |         | -                               | (11,163)   | -           | -         | -            | -           | -            | (11,163)   |                                      |          |                       |           |
| <b>Assets</b>                         |                       |         |             |         |                                 |            |             |           |              |             |              |            |                                      |          |                       |           |
| Segment assets                        | 113,898               | 105,750 | 476,768     | 450,953 | -                               | 10,488,074 | 4,244,049   | 4,626,493 | -            | (3,011,099) | 4,834,625    | 12,660,171 |                                      |          |                       |           |
| Investment in associates              | -                     | -       | -           | -       | -                               | -          | -           | -         | -            | -           | -            | -          |                                      |          |                       |           |
| Total assets                          |                       |         |             |         |                                 |            |             |           |              |             | 4,834,625    | 12,660,171 |                                      |          |                       |           |
| <b>Liabilities</b>                    |                       |         |             |         |                                 |            |             |           |              |             |              |            |                                      |          |                       |           |
| Segment liabilities                   | -                     | -       | -           | -       | -                               | 7,107,552  | 311,107     | 194,858   | -            | -           | 311,107      | 7,302,410  |                                      |          |                       |           |
| Total liabilities                     |                       |         |             |         |                                 |            |             |           |              |             | 311,107      | 7,302,410  |                                      |          |                       |           |
| Capital expenditure                   | -                     | -       | -           | -       | 2,341,516                       | 525,842    | 39          | -         | -            | -           | 2,341,555    | 525,842    |                                      |          |                       |           |
| Depreciation                          | -                     | -       | -           | -       | 209,388                         | 5,925      | 4,607       | -         | -            | -           | 213,995      | 5,925      |                                      |          |                       |           |

Geographical segments

| Geographic segments             | Australia |           | China     |            | Eliminations |             | Consolidated |            |
|---------------------------------|-----------|-----------|-----------|------------|--------------|-------------|--------------|------------|
|                                 | 2008      | 2007      | 2008      | 2007       | 2008         | 2007        | 2008         | 2007       |
| In AUD                          |           |           |           |            |              |             |              |            |
| Revenue from external customers | -         | -         | -         | 49,407     | -            | -           | -            | 49,407     |
| Segment assets                  | 5,699,759 | 5,183,196 | 3,063,623 | 10,488,074 | (3,928,757)  | (3,011,099) | 4,834,625    | 12,660,171 |
| Capital expenditure             | -         | -         | 2,341,555 | 525,842    | -            | -           | 2,341,555    | 525,842    |

**NOTE 7 – ACQUISITION OF SUBSIDIARIES AND MINORITY INTERESTS**

No subsidiaries were acquired during the year ended 31 December 2008.

During the year ended 31 December 2007, the Company incorporated two subsidiaries, KTL Technologies Hong Kong Limited and Jilin Australia Energy Technology Company Limited, and acquired 65% of the shares in Jilin Huisheng Strong Magnet Company Limited.

KTL Technologies HK Limited was incorporated on 16 January 2007. As of 31 December 2007, KTL Technologies HK Limited has not commenced commercial activities.

Jilin Australia Energy Technology Company Limited was incorporated on 19 April 2007. During the prior period, the Company transferred the equivalent of RMB20,000,000 (A\$3,011,099) as capital contribution.

On 7 September 2007 the Group acquired 65% of the shares in Jilin Huisheng Strong Magnet Company Limited (“JHSM”) for RMB5,000,000 (equivalent to AUD748,682) in cash. JHSM’s major activities comprise: manufacturing and sales of magnetic material and its applicants, special equipments for magnetic materials; export of self-produced products and relevant technology; import of raw material, equipment, instrument, spare parts and relevant technology relating to its business and research; and original equipment manufacturing (OEM).

JHSM owns 51% of the shares of Beijing Beilong Magnet Material Technology Co. Ltd (“BBMMT”), which performs research and development in relation to magnetic material manufacture processing and specifications.

During the period from 7 September 2007 to 31 December 2007, JHSM contributed a loss of RMB1,997,198(A\$303,451).

If the acquisition had occurred on 1 January 2007, management estimates that consolidated revenue would have been RMB1,112,412(A\$174,190) and consolidated loss for the period would have been RMB 4,948,149 (A\$774,819). In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2007.

The acquisition had the following effect on the Group’s assets and liabilities on acquisition date:

|   | <b>Recognised<br/>Value on<br/>acquisition<br/>in 2007</b> |
|---|--|
| Property, plant and equipment           | 5,903,981  |
| Deferred costs                          | -  |
| Intangible assets                       | 1,124,552  |
| Inventories                             | 372,377  |
| Trade and other receivables             | 1,122,864  |
| Cash and cash equivalents               | 602,276  |
| Loans and borrowings                    | (963,902)  |
| Prepaid tax                             | 241,090  |
| Trade and other payables                | <u>(7,165,273)</u>   |
| Net identifiable assets and liabilities | <u>1,237,965</u>   |
| Acquisition of 65% of net assets        | 804,677  |
| Discount on acquisition                 | <u>(1,425)</u>   |
| Consideration paid, satisfied in cash   | 803,252  |
| Foreign exchange rate effect            | <u>(54,570)</u>  |
| Cash outflow                            | 748,682  |
| Cash acquired                           | <u>(602,276)</u>   |
| Net Cash Flow                           | <u>146,406</u>   |

The Directors of the Company had made fair value assessment on all assets and liabilities of JHSM and BBMMT as at the acquisition date. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values (see note 4 for methods used in determining fair values).

**NOTE 8 – DISCONTINUED OPERATIONS**

On 24 December 2008 the Group disposed its entire Magnet Material segment (JHSM and BBMMT) and KTL Technologies Hong Kong Limited by in specie distribution. These companies were not discontinued operations or classified as held for sale as at 31 December 2007 and the comparative income statement has been re-presented to show the discontinued operation separately from continuing operations. Management committed to a plan to dispose these companies late in 2008 due to the strategic decision to solely focus on its mineral business,

|  | <b>Consolidated</b> | <b>Consolidated</b> |
|--|---------------------|---------------------|
|  | <b>2008</b>         | <b>2007</b>         |
| <b>Note</b>  | <b>\$</b>           | <b>\$</b>           |
| <b>Results of discontinued operations</b>                        |                     |                     |
| Revenue  | 266,143             | 49,407              |
| Expenses   | (911,928)           | (374,206)           |
| Results from operating activities                                | (645,785)           | (324,799)           |
| Income tax   | -                   | -                   |
| Results from operating activities, net of income tax             | (645,785)           | (324,799)           |
| Gain on sale of discontinued operation                           | -                   | -                   |
| Income tax on gain on sale of discontinued operation             | -                   | -                   |
| Profit (loss) for the period                                     | (645,785)           | (324,799)           |
| Basic earnings (loss) per share (cents)                          | (0.16)              | (0.11)              |
| Diluted earnings (loss) per share (cents)                        | (0.16)              | (0.11)              |
| <b>Cash flows from (used in) discontinued operation</b>          |                     |                     |
| Net cash used in operating activities                            | (929,739)           | (380,155)           |
| Net cash from investing activities                               | (805,585)           | (569,994)           |
| Net cash from financing activities                               | 170,623             | 2,235,148           |
| Cash acquired from acquisition of subsidiary                     | -                   | 602,276             |
| Effect of exchange rate fluctuations on cash held                | 34,590              | (23,882)            |
| Net cash from (used in) discontinued operations                  | (1,530,111)         | 1,863,393           |
| <b>Effect of disposal on the financial position of the Group</b> |                     |                     |
| <b>Note</b>  | <b>2008</b>         |                     |
| Property, plant and equipment                                    | 8,534,187           |                     |
| Inventories  | 1,334,626           |                     |
| Trade and other receivables                                      | 1,721,702           |                     |
| Cash and cash equivalents  | 334,912             |                     |
| Intangible assets  | 2,122,289           |                     |
| Trade and other payables   | (4,287,947)         |                     |
| Net assets and liabilities                                       | (580,612)           |                     |
| Consideration received   | -                   |                     |
| Cash disposed of   | (334,912)           |                     |
| Net cash flow  | (334,912)           |                     |

## NOTE 9 - REVENUE

### Continuing Operations

|                               | <b>Consolidated</b> | <b>Consolidated</b> | <b>Parent</b>  | <b>Parent</b> |
|-------------------------------|---------------------|---------------------|----------------|---------------|
|                               | <b>2008</b>         | <b>2007</b>         | <b>2008</b>    | <b>2007</b>   |
|                               | \$                  | \$                  | \$             | \$            |
| Sales                         | -                   | -                   | -              | -             |
| Interest received – Unrelated | <b>94,329</b>       | 58,846              | <b>32,226</b>  | 50,267        |
| Interest - subsidiary         | -                   | -                   | <b>270,788</b> | 61,339        |
|                               | <b>94,329</b>       | 58,846              | <b>303,014</b> | 111,606       |

### Discontinued operations

|                               | <b>Consolidated</b> | <b>Consolidated</b> |
|-------------------------------|---------------------|---------------------|
|                               | <b>2008</b>         | <b>2007</b>         |
|                               | \$                  | \$                  |
| Sales                         | <b>266,143</b>      | 49,407              |
|                               | <b>266,143</b>      | 49,407              |
| Interest received – Unrelated | -                   | 2,345               |
|                               | <b>266,143</b>      | 51,752              |

## NOTE 10 - INCOME TAX EXPENSE

### Major components of income tax expense

|   | <b>Consolidated</b> | <b>Consolidated</b> | <b>Parent</b>    | <b>Parent</b> |
|---|---------------------|---------------------|------------------|---------------|
|   | <b>2008</b>         | <b>2007</b>         | <b>2008</b>      | <b>2007</b>   |
|   | \$                  | \$                  | \$               | \$            |
| Current income tax expense (benefit)  | <b>(778,572)</b>    | (218,118)           | <b>(295,595)</b> | (124,572)     |
| Benefit of tax loss not brought to account  | <b>778,572</b>      | 218,118             | <b>295,595</b>   | 124,572       |
| Income tax expense  | -                   | -                   | -                | -             |
| <b>Reconciliation between income tax expense and prima facie tax on accounting loss</b> |                     |                     |                  |               |
| Accounting loss   | <b>(2,628,573)</b>  | (727,061)           | <b>(985,315)</b> | (415,239)     |
| Tax at 30% (2007: 30%)  | <b>(778,572)</b>    | (218,118)           | <b>(295,595)</b> | (124,572)     |
| Tax effect of non-deductible expenses   | -                   | -                   | -                | -             |
| Benefit of tax loss not brought to account  | <b>778,572</b>      | 218,118             | <b>295,595</b>   | 124,572       |
| Income tax expense from continuing operations   | -                   | -                   | -                | -             |
| Income tax expense from discontinued operations   | -                   | -                   | -                | -             |
| Income tax expense on gain on sale of discontinued operations                           | -                   | -                   | -                | -             |
| Total income tax expense  | <b>(778,572)</b>    | (218,118)           | <b>(295,595)</b> | (124,572)     |

### Applicable tax rate

The applicable tax rate is the national tax rate in Australia.

### Analysis of deferred tax assets

No deferred tax assets have been recognised as yet. The Company currently has income tax losses of \$297,890. The Company's ability to utilise the carry forward tax losses rests with it being able to pass the necessary requirements in the tax legislation.

### Tax-consolidated group

The entity has yet to make an election to consolidate and be treated as single entity for income tax purposes. The method adopted for measuring the current and deferred tax amounts is:

- consolidated current and deferred tax amounts have been determined in accordance with AASB 112;
- each entity in the consolidated group has been allocated consolidated current and deferred tax amounts in a manner consistent with the broad principles of AASB 112.

**NOTE 11 – PROPERTY, PLANT AND EQUIPMENT**

| <i>in AUD</i>   | Land           | Plant            | Production<br>Equipment | Office<br>Equipment | Motor<br>Vehicles | Total            | Parent<br>Total |
|---|----------------|------------------|-------------------------|---------------------|-------------------|------------------|-----------------|
| <b>Cost</b>   |                |                  |                         |                     |                   |                  |                 |
| Balance at 1 January 2007                                     | -              | -                | -                       | -                   | -                 | -                | -               |
| Acquisitions  | -              | 398,768          | -                       | 11,093              | 115,981           | 525,842          | -               |
| Acquisitions through business combinations                    | 655,355        | 1,646,427        | 3,530,982               | 34,828              | 55,179            | 5,922,771        | -               |
| Effect of movements in foreign exchange                       | -              | -                | -                       | -                   | -                 | -                | -               |
| <b>Balance at 31 December 2007</b>                            | <b>655,355</b> | <b>2,045,195</b> | <b>3,530,982</b>        | <b>45,921</b>       | <b>171,160</b>    | <b>6,448,613</b> | <b>-</b>        |
| Balance at 1 January 2008                                     | 655,355        | 2,045,195        | 3,530,982               | 45,921              | 171,160           | 6,448,613        | -               |
| Acquisitions  | -              | 1,865,237        | 460,242                 | 16,076              | -                 | 2,341,555        | -               |
| Disposals   | (655,355)      | (3,910,432)      | (3,991,224)             | (61,997)            | (131,472)         | (8,750,480)      | -               |
| Effect of movements in foreign exchange                       | -              | -                | -                       | -                   | -                 | -                | -               |
| <b>Balance at 31 December 2008</b>                            | <b>-</b>       | <b>-</b>         | <b>-</b>                | <b>-</b>            | <b>39,688</b>     | <b>39,688</b>    | <b>-</b>        |
| <b>Depreciation and impairment losses</b>                     |                |                  |                         |                     |                   |                  |                 |
| Balance at 1 January 2007                                     | -              | -                | -                       | -                   | -                 | -                | -               |
| Depreciation charge for the year                              | -              | -                | 375                     | 2,396               | 3,154             | 5,925            | -               |
| Additions through business combinations                       | -              | -                | 529                     | 385                 | 507               | 1,421            | -               |
| Effect of movements in foreign exchange                       | -              | -                | -                       | -                   | -                 | -                | -               |
| <b>Balance at 31 December 2007</b>                            | <b>-</b>       | <b>-</b>         | <b>904</b>              | <b>2,781</b>        | <b>3,661</b>      | <b>7,346</b>     | <b>-</b>        |
| Balance at 1 January 2008                                     | -              | -                | 904                     | 2,781               | 3,661             | 7,346            | -               |
| Depreciation charge for the year                              | 27,070         | 69,173           | 76,787                  | 17,471              | 23,494            | 213,995          | -               |
| Offset of accumulated depreciation of discontinued operations | (27,070)       | (69,173)         | (77,691)                | (20,252)            | (22,107)          | (216,293)        | -               |
| Effect of movements in foreign exchange                       | -              | -                | -                       | -                   | -                 | -                | -               |
| <b>Balance at 31 December 2008</b>                            | <b>-</b>       | <b>-</b>         | <b>-</b>                | <b>-</b>            | <b>5,048</b>      | <b>5,048</b>     | <b>-</b>        |
| <b>Carrying amounts</b>                                       |                |                  |                         |                     |                   |                  |                 |
| At 1 January 2007   | -              | -                | -                       | -                   | -                 | -                | -               |
| At 31 December 2007   | <b>655,355</b> | <b>2,045,195</b> | <b>3,530,078</b>        | <b>43,140</b>       | <b>167,499</b>    | <b>6,441,267</b> | <b>-</b>        |
| At 1 January 2008   | 655,355        | 2,045,195        | 3,530,078               | 43,140              | 167,499           | 6,441,267        | -               |
| <b>At 31 December 2008</b>                                    | <b>-</b>       | <b>-</b>         | <b>-</b>                | <b>-</b>            | <b>34,640</b>     | <b>34,640</b>    | <b>-</b>        |

During the year ended 31 December 2008, \$1,865,237(2007:\$398,768) was spent on construction of the production plant, and production equipment of \$476,318 (2007:\$127,074) was purchased during the year.

**NOTE 12 – EXPLORATION AND EVALUATION EXPENDITURE**

|  | <b>Consolidated</b> | <b>Consolidated</b> | <b>Parent</b> | <b>Parent</b> |
|--|---------------------|---------------------|---------------|---------------|
|  | <b>2008</b>         | <b>2007</b>         | <b>2008</b>   | <b>2007</b>   |
|  | \$                  | \$                  | \$            | \$            |
| Exploration and evaluation expenditure | 476,678             | 450,953             | -             | -             |
| Reconciliation of carrying amount      |                     |                     |               |               |
| Carrying amount at 1 January           | 450,953             | 381,091             | -             | -             |
| Acquisition Costs                      | -                   | -                   | -             | -             |
| Expenditure in current period          | 25,725              | 69,862              | -             | -             |
| Expenditure written off                | -                   | -                   | -             | -             |
| Carrying amount 31 December            | 476,678             | 450,953             | -             | -             |

**NOTE 13 – INTANGIBLE ASSETS**

|                                    | <b>Consolidated</b> | <b>Consolidated</b> | <b>Parent</b> | <b>Parent</b> |
|------------------------------------|---------------------|---------------------|---------------|---------------|
|                                    | <b>2008</b>         | <b>2007</b>         | <b>2008</b>   | <b>2007</b>   |
|                                    | \$                  | \$                  | \$            | \$            |
| Cryo-Lag                           | 113,898             | 105,750             | 113,898       | 105,750       |
| HDDR Technology                    | -                   | 1,091,618           | -             | -             |
|                                    | 113,898             | 1,197,368           | 113,898       | 105,750       |
| Reconciliation of carrying amount  |                     |                     |               |               |
| Cryo-Lag                           |                     |                     |               |               |
| Carrying amount at 1 January       | 105,750             | 72,660              | 105,750       | 72,660        |
| Expenditure in current period      | 8,148               | 33,090              | 8,148         | 33,090        |
| Carrying amount 31 December        | 113,898             | 105,750             | 113,898       | 105,750       |
| HDDR Technology                    |                     |                     |               |               |
| Carrying amount at 1 January       | 1,091,618           | -                   | -             | -             |
| Disposal of discontinued operation | (1,091,618)         | 1,091,618           | -             | -             |
| Carrying amount 31 December        | -                   | 1,091,618           | -             | -             |

The intangible assets of \$1,091,618 is the technology of producing Hydrogenation Disproportionation Desorption Recombination (HRRD) Anisotropic Bonded Neodymium Iron Boron (NdFeB) Powder, anisotropic injection /compression molded bonded NdFeB magnet, isotropic injection/compression molded bonded NdFeB magnet and injection molded hard ferrite magnet. The products are mainly used in micro-motors, instruments, sensors, electro-magnetic acoustic devices. University of Science & Technology Beijing and Jilin Huisheng Strong Magnet Co Ltd entered into a contract on Oct 16, 2001 to permanently transfer the technology in relation to manufacturing HDDR powder to Strong Magnet at RMB7,000,000.

**NOTE 14 – INVENTORIES**

|                               | <b>Consolidated</b> | <b>Consolidated</b> | <b>Parent</b> | <b>Parent</b> |
|-------------------------------|---------------------|---------------------|---------------|---------------|
|                               | <b>2008</b>         | <b>2007</b>         | <b>2008</b>   | <b>2007</b>   |
|                               | \$                  | \$                  | \$            | \$            |
| Raw materials and consumables | -                   | 135,310             | -             | -             |
| Work in progress              | -                   | 107,896             | -             | -             |
| Finished goods                | -                   | 184,394             | -             | -             |
| Carrying amount 31 December   | -                   | 427,600             | -             | -             |

**NOTE 15 - TRADE AND OTHER RECEIVABLES**

|                             | <b>Consolidated</b> | <b>Consolidated</b> | <b>Parent</b> | <b>Parent</b> |
|-----------------------------|---------------------|---------------------|---------------|---------------|
|                             | <b>2008</b>         | <b>2007</b>         | <b>2008</b>   | <b>2007</b>   |
|                             | \$                  | \$                  | \$            | \$            |
| Trade receivables           | -                   | 50,660              | -             | -             |
| Other receivables           | 15,095              | 535,292             | 7,440         | 2,044         |
| Carrying amount 31 December | 15,095              | 585,952             | 7,440         | 2,044         |

**NOTE 16 - CASH AND CASH EQUIVALENTS**

**16a Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents included in the cash flow statement comprise the following amounts:

|                             | <b>Consolidated</b> | <b>Consolidated</b> | <b>Parent</b>  | <b>Parent</b>  |
|-----------------------------|---------------------|---------------------|----------------|----------------|
|                             | <b>2008</b>         | <b>2007</b>         | <b>2008</b>    | <b>2007</b>    |
|                             | \$                  | \$                  | \$             | \$             |
| Cash and cash equivalents   | 535,914             | 2,864,818           | 535,158        | 898,240        |
| Carrying amount 31 December | <b>535,914</b>      | <b>2,864,818</b>    | <b>535,158</b> | <b>898,240</b> |

**16b Reconciliation of net cash used in operating activities to loss**

|   | <b>Consolidated</b> | <b>Consolidated</b> | <b>Parent</b>    | <b>Parent</b> |
|---|---------------------|---------------------|------------------|---------------|
|   | <b>2008</b>         | <b>2007</b>         | <b>2008</b>      | <b>2007</b>   |
|   | \$                  | \$                  | \$               | \$            |
| Profit (Loss) after income tax                                      | <b>(2,628,573)</b>  | (833,269)           | <b>(985,315)</b> | (415,239)     |
| Adjustment for:   |                     |                     |                  |               |
| Depreciation  | 4,607               | 5,925               | -                | -             |
| Share based payment   | 1,250,000           | -                   | 1,250,000        | -             |
| Gain on acquisition of subsidiary                                   | -                   | 1,425               | -                | -             |
| Loss on disposal of discontinued operations                         | 645,785             | -                   | -                | -             |
| Finance expense   | -                   | 52,234              | -                | -             |
| Impairment loss on trade receivables                                | -                   | 11,163              | -                | -             |
| Interest income from controlled entities                            | -                   | -                   | <b>(270,788)</b> | (61,339)      |
| Operating loss before changes in working capital and provisions     | <b>(728,181)</b>    | (762,522)           | <b>(6,603)</b>   | (476,578)     |
| Changes in assets and liabilities during the financial period:      |                     |                     |                  |               |
| Decrease/(increase) in accounts receivable and prepayments          | <b>(12,437)</b>     | 3,617               | <b>(5,396)</b>   | (8,147)       |
| Increase/(decrease) in inventories                                  | -                   | (64,431)            | -                | -             |
| Increase in intangible assets                                       | -                   | -                   | -                | -             |
| Increase/(decrease) in accounts payable and other creditors payable | 117,947             | 121,368             | 117,982          | 173,356       |
| Decrease/(increase) in other assets                                 | <b>(600,775)</b>    | (27,257)            | <b>(684,923)</b> | (31,809)      |
|   | <b>(1,223,446)</b>  | (729,225)           | <b>(578,440)</b> | (343,178)     |

**16c Non cash investing and financing activities**

The Group did not carry out non-cash investing and financing activities during the year ended 31 December 2008.

**NOTE 17 – OTHER FINANCIAL ASSETS**

|   | <b>Consolidated</b> | <b>Consolidated</b> | <b>Parent</b>    | <b>Parent</b> |
|---|---------------------|---------------------|------------------|---------------|
|   | <b>2008</b>         | <b>2007</b>         | <b>2008</b>      | <b>2007</b>   |
|   | \$                  | \$                  | \$               | \$            |
| <b>CURRENT</b>                              |                     |                     |                  |               |
| Tax account                                 | 3,585               | 265,572             | 3,585            | 912           |
| Prepayments                                 | 4,855               | 371,310             | 4,855            | 6,079         |
| Deposits                                    | 10,236              | 9,888               | 10,236           | 9,888         |
| Interest bearing loans                      | 908,284             | 45,443              | -                | -             |
| Receivable from KTL HK                      | 619,150             | -                   | 619,150          | -             |
| Carrying amount 31 December                 | <b>1,546,110</b>    | 692,213             | <b>637,826</b>   | 16,879        |
| <b>NON-CURRENT</b>                          |                     |                     |                  |               |
| Loan to controlled entities                 | -                   | -                   | 3,666,260        | 3,529,101     |
| Investment in controlled entities – at cost | -                   | -                   | 819,521          | 819,522       |
| Interest bearing loan                       | 2,112,289           | -                   | -                | -             |
| Carrying amount 31 December                 | <b>2,112,289</b>    | -                   | <b>4,485,781</b> | 4,348,623     |

**NOTE 18 – EARNINGS PER SHARE**

|  | <b>Consolidated</b><br>2008 | Consolidated<br>2007 | <b>Parent</b><br>2008 | Parent<br>2007 |
|--|-----------------------------|----------------------|-----------------------|----------------|
| <b>Reconciliation of earnings per share</b>  | <b>Cents</b>                | Cents                | <b>Cents</b>          | Cents          |
| Earnings per share – Continuing Operations   |                             |                      |                       |                |
| Basic loss per share (cents)   | <b>(0.47)</b>               | (0.17)               |                       |                |
| Diluted loss per share (cents)   | <b>(0.47)</b>               | (0.17)               |                       |                |
| Earnings per share – Equity holders of company   |                             |                      |                       |                |
| Basic earnings per share (cents)   | <b>(0.63)</b>               | (0.24)               |                       |                |
| Diluted earnings per share (cents)   | <b>(0.63)</b>               | (0.24)               |                       |                |
| Profit ( loss) from discontinued operations used in the calculation of the basic earnings per share and diluted earnings per share   | <b>(645,785)</b>            | <b>(324,799)</b>     |                       |                |
| Profit ( loss) from ordinary activities attributable to parent entity after income tax being the earnings used in the calculation of the basic earnings per share and diluted earnings per share | <b>(2,628,573)</b>          | (727,061)            |                       |                |
| <b>Reconciliation of weighted average number of ordinary shares</b>  | <b>No. of shares</b>        | No. of shares        |                       |                |
| Weighted average number of ordinary shares: Used in calculating basic earnings per ordinary shares   | <b>419,824,118</b>          | 311,591,703          |                       |                |
| Adjustments: Dilutive potential ordinary shares (i) Used in calculating diluted earnings per share   | <b>419,824,118</b>          | 311,591,703          |                       |                |

(i) The options are excluded from calculation of diluted earnings per share due to them potentially diluting basic earnings per share because they are anti-dilutive in 2008.

**NOTE 19 – LOANS AND BORROWINGS**

This note provides information about the contractual of the Company's and Group's interest bearing loans and borrowings, which are amortised at cost.

|                              | <b>Consolidated</b><br>2008 | Consolidated<br>2007 | <b>Parent</b><br>2008 | Parent<br>2007 |
|------------------------------|-----------------------------|----------------------|-----------------------|----------------|
|                              | \$                          | \$                   | \$                    | \$             |
| Current liabilities          |                             |                      |                       |                |
| Short term secured bank loan | -                           | 935,673              | -                     | -              |
| Other interest-bearing loans | -                           | 1,031,758            | -                     | -              |
|                              | -                           | 1,967,431            | -                     | -              |
| Non current liabilities      |                             |                      |                       |                |
| Interest-bearing loans       | -                           | 3,534,550            | -                     | -              |
| Carrying amount 31 December  | -                           | 3,534,550            | -                     | -              |

**NOTE 20 – TRADE AND OTHER PAYABLES**

|                                 | <b>Consolidated</b><br>2008 | Consolidated<br>2007 | <b>Parent</b><br>2008 | Parent<br>2007 |
|---------------------------------|-----------------------------|----------------------|-----------------------|----------------|
|                                 | \$                          | \$                   | \$                    | \$             |
| <b>CURRENT</b>                  |                             |                      |                       |                |
| Trade accounts payable          | <b>311,107</b>              | 1,720,626            | <b>311,107</b>        | 193,125        |
| Other payables                  | -                           | 109                  | -                     | -              |
| Employee benefits payable       | -                           | 2,152                | -                     | -              |
| Advance receipts from customers | -                           | 32,310               | -                     | -              |
| Tax payables – China            | -                           | 45,232               | -                     | -              |
|                                 | <b>311,107</b>              | 1,800,429            | <b>311,107</b>        | 193,125        |
| Total trade and other payables  | <b>311,107</b>              | 1,800,429            | <b>311,107</b>        | 193,125        |

The carrying amounts of trade and other payables approximate their fair values.

**NOTE 21 - SHARE BASED PAYMENTS**

The commercial production of Hydrogenation Disproportionation Desorption Recombination of Anisotropic Bonded Neodymium Iron Boron Powder (HDDR powder) by JHSM has commenced and an HDDR Powder production of 6 tonnes per week has been achieved continuously over a four week production period during March to April 2008.

As approved at the Company's EGM held on 15 February 2008, an aggregate of 50,000,000 ordinary shares was allotted and issued to the Key Employees of Jilin Huisheng Strong Magnet Company Limited on 7 May 2008.

The fair value of the 50,000,000 ordinary shares was measured at AUD0.025 which was the market price on the date of issuance totalling \$1,250,000.

No options were granted during year ended 31 December 2008.

**NOTE 22 – FINANCIAL INSTRUMENTS**

**Credit Risk**

**Exposure to credit risk**

The carrying amount of the Group's financial assets represents the maximum credit exposure.

The Group's maximum exposure to credit risk at the reporting date was:

|                             | <b>Consolidated</b> |                  |
|-----------------------------|---------------------|------------------|
|                             | <b>2008</b>         | 2007             |
|                             | \$                  | \$               |
| Trade and other receivables | 15,095              | 585,952          |
| Other financial assets      | 3,658,399           | 692,213          |
| Cash and cash equivalents   | 535,914             | 2,864,818        |
|                             | <b>4,209,408</b>    | <b>4,142,983</b> |

The Company's maximum exposure to credit risk at the reporting date was \$15,095 (2007: \$585,952 for trade and other receivables, \$3,658,399 (2007: \$692,213) for other financial assets, and \$535,914 (2007: \$2,864,818) for cash and cash equivalents, totalling \$4,209,408 (2007: \$4,142,983).

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

|           | <b>Consolidated</b> |                |
|-----------|---------------------|----------------|
|           | <b>2008</b>         | 2007           |
|           | \$                  | \$             |
| Australia | 7,440               | -              |
| China     | 7,655               | 585,952        |
|           | <b>15,095</b>       | <b>585,952</b> |

The Company's maximum exposure to credit risk for receivables at the reporting date by geographic region was \$7,440 (2007: nil) for Australia, \$7,655 (2007: \$585,952) for China, totalling \$15,095 (2007: \$585,952). All receivables are within subsidiaries.

**Impairment losses**

As at 31 December 2008, \$nil (2007: \$23,464) of the Company's receivables was past due. The ageing of the Group's trade receivables at the reporting date was:

|                       | <b>2008</b>   |                   | <b>2007</b>   |               |
|-----------------------|---------------|-------------------|---------------|---------------|
|                       | <b>Gross</b>  | <b>Impairment</b> | Gross         | Impairment    |
|                       | \$            | \$                | \$            | \$            |
| Not past due          | 15,095        | -                 | 27,196        | -             |
| Past due 0-30 days    | -             | -                 | 39            | -             |
| Past due 31-150 days  | -             | -                 | 22,109        | -             |
| Past due 151-365 days | -             | -                 | 1,316         | -             |
| More than one year    | -             | -                 | -             | 11,163        |
|                       | <b>15,095</b> | <b>-</b>          | <b>50,660</b> | <b>11,163</b> |

### Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

#### Consolidated

31 December 2008

| Non-derivatives financial liabilities | Carrying amount | Contractual cashflow | Under 6 months | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|---------------------------------------|-----------------|----------------------|----------------|-------------|-----------|-----------|-------------------|
| Trade and other payables              | (311,107)       | -                    | (311,107)      | -           | -         | -         | -                 |
|                                       | (311,107)       | -                    | (311,107)      | -           | -         | -         | -                 |

#### Consolidated

31 December 2007

| Non-derivatives financial liabilities | Carrying amount | Contractual cashflow | Under 6 months | 6-12 months | 1-2 years   | 2-5 years | More than 5 years |
|---------------------------------------|-----------------|----------------------|----------------|-------------|-------------|-----------|-------------------|
| Secured bank loans                    | (935,673)       | (935,673)            | (935,673)      | -           | -           | -         | -                 |
| Other interest bearing loans          | (1,031,758)     | (1,031,758)          | (1,031,758)    | -           | -           | -         | -                 |
| Long term loan                        | (3,534,550)     | (3,534,550)          | -              | -           | (3,534,550) | -         | -                 |
| Trade and other payables              | (1,800,429)     | (1,800,429)          | (1,542,475)    | (129,264)   | (7,341)     | (121,349) | -                 |
|                                       | (7,302,410)     | (7,302,410)          | (3,509,906)    | (129,264)   | (3,541,891) | (121,349) | -                 |

#### Parent

31 December 2008

| Non-derivatives financial liabilities | Carrying amount | Contractual cashflow | Under 6 months | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|---------------------------------------|-----------------|----------------------|----------------|-------------|-----------|-----------|-------------------|
| Trade and other payables              | 311,107         | -                    | 311,107        | -           | -         | -         | -                 |
|                                       | 311,107         | -                    | 311,107        | -           | -         | -         | -                 |

#### Parent

31 December 2007

| Non-derivatives financial liabilities | Carrying amount | Contractual cashflow | Under 6 months | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|---------------------------------------|-----------------|----------------------|----------------|-------------|-----------|-----------|-------------------|
| Trade and other payables              | 193,125         | -                    | 193,125        | -           | -         | -         | -                 |
|                                       | 193,125         | -                    | 193,125        | -           | -         | -         | -                 |

### Currency risk

The following significant exchange rates applied during the year:

| AUD\$1 | Average Rate |        | Reporting date rate |        |
|--------|--------------|--------|---------------------|--------|
|        | 2008         | 2007   | 2008                | 2007   |
| HKD    | 6.6444       | 6.7705 | 5.3534              | 6.8428 |
| RMB    | 5.9449       | 6.5816 | 4.7342              | 6.4125 |
| USD    | 0.8530       | 0.8673 | 0.6907              | 0.8757 |

The acquisition date AUD/RMB exchange rate of 6.2247 is applied for translation of acquisition of assets and liabilities of Jilin Huisheng Strong Magnet Co Ltd on 7 September 2007.

**Sensitivity analysis**

A 20 percent strengthening of the Australian dollar against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the basis of a 10 percent strengthening of the Australian dollar against the foreign currencies for 2007.

| Effect in AUD           | Consolidated |              | Parent       |              |
|-------------------------|--------------|--------------|--------------|--------------|
|                         | Equity<br>\$ | Profit<br>\$ | Equity<br>\$ | Profit<br>\$ |
| <b>31 December 2008</b> |              |              |              |              |
| HKD                     | (10,700)     | (10,700)     | -            | -            |
| RMB                     | (322,533)    | 182,298      | -            | -            |
| USD                     | -            | -            | -            | -            |
| <b>31 December 2007</b> |              |              |              |              |
| HKD                     | (61,230)     | 2,446        | -            | -            |
| RMB                     | 476,841      | 198,189      | -            | -            |
| USD                     | -            | -            | -            | -            |

A 20 percent weakening of the Australian dollar against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

**Interest rate risk**

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

|  | Consolidated carrying amount |           | Parent carrying amount |      |
|--|------------------------------|-----------|------------------------|------|
|  | 2008                         | 2007      | 2008                   | 2007 |
| <b>Fixed rate instruments</b>          |                              |           |                        |      |
| Secured bank loans                     | -                            | 935,673   | -                      | -    |
| Other interest bearing loans - current | -                            | 1,031,758 | -                      | -    |
| Interest bearing loans – non-current   | -                            | 3,534,550 | -                      | -    |
|  | -                            | 5,501,981 | -                      | -    |

The other financial instruments of the Company that are not included in the above table are non-interest bearing and therefore not subject to interest rate risk.

**Fair value sensitivity analysis for fixed rate instruments**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

**Fair Values**

Set out below is a comparison by category of the carrying amounts and fair values of all of the Company's financial instruments that are carried in the balance sheet:

**Consolidated**

|                                      | Note | Carrying amount | Fair Value | Carrying amount | Fair Value |
|--------------------------------------|------|-----------------|------------|-----------------|------------|
|                                      |      | 2008<br>\$      | 2008<br>\$ | 2007<br>\$      | 2007<br>\$ |
| <b>ASSETS</b>                        |      |                 |            |                 |            |
| Cash and cash equivalents            | 16   | 535,914         | 535,914    | 2,864,818       | 2,864,818  |
| Trade and other receivables          | 15   | 15,095          | 15,095     | 585,952         | 585,952    |
| Other financial assets – current     | 17   | 1,546,110       | 1,546,110  | 692,213         | 692,213    |
| Other financial assets – non-current | 17   | 2,112,289       | 2,112,289  | -               | -          |
| <b>LIABILITIES</b>                   |      |                 |            |                 |            |
| Trade and other payables             | 20   | 311,107         | 311,107    | 1,800,429       | 1,800,429  |
| Interest bearing loan – current      | 19   | -               | -          | 1,967,431       | 1,967,431  |
| Interest bearing loan – non-current  | 19   | -               | -          | 3,534,550       | 3,534,550  |

Parent

|                                      | Note | Carrying amount |           | Fair Value |           |
|--------------------------------------|------|-----------------|-----------|------------|-----------|
|                                      |      | 2008            | 2008      | 2007       | 2007      |
|                                      |      | \$              | \$        | \$         | \$        |
| <b>ASSETS</b>                        |      |                 |           |            |           |
| Cash and cash equivalents            | 16   | 535,158         | 535,158   | 898,240    | 898,240   |
| Trade and other receivables          | 15   | 7,440           | 7,440     | 2,044      | 2,044     |
| Other financial assets – current     | 17   | 637,826         | 637,826   | 16,879     | 16,879    |
| Other financial assets – non-current | 17   | 4,485,781       | 4,485,781 | 4,348,623  | 4,348,623 |
| <b>LIABILITIES</b>                   |      |                 |           |            |           |
| Trade and other payables             | 20   | 311,107         | 311,107   | 193,125    | 193,125   |

**NOTE 23 – LEASES**

Operating leases as lessee

Non-cancellable operating lease rentals are payable as follows:

|                            | Consolidated |        | Company |      |
|----------------------------|--------------|--------|---------|------|
|                            | 2008         | 2007   | 2007    | 2007 |
|                            | \$           | \$     | \$      | \$   |
| Less than one year         | -            | 22,383 | -       | -    |
| Between one and five years | -            | -      | -       | -    |
| More than five years       | -            | -      | -       | -    |
| Total                      | -            | 22,383 | -       | -    |

**NOTE 24 – CAPITAL AND OTHER COMMITMENTS**

|   | Consolidated   | Consolidated | Parent         | Parent         |
|---|----------------|--------------|----------------|----------------|
|   | 2008           | 2007         | 2008           | 2007           |
|   | \$             | \$           | \$             | \$             |
| <b>Joint venture commitments</b>  |                |              |                |                |
| <i>Expenditure commitments of the group to the joint venture operation:</i>   |                |              |                |                |
| Within one year   | 54,000         | 54,000       | 54,000         | 54,000         |
|   | <b>54,000</b>  | 54,000       | <b>54,000</b>  | <b>54,000</b>  |
| <b>Employee compensation commitments</b>  |                |              |                |                |
| <i>Commitments under non-cancellable employment contracts not provided for in the financial statements and payable:</i> |                |              |                |                |
| Within one year   | 218,000        | 218,000      | 218,000        | 218,000        |
| One year or later and no later than five years  | 436,000        | 654,000      | 436,000        | 654,000        |
|   | <b>654,000</b> | 872,000      | <b>654,000</b> | <b>872,000</b> |

**NOTE 25 – CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets, listed as nil (2007: nil).

## **NOTE 26 – RELATED PARTY DISCLOSURES**

### **REMUNERATION REPORT**

#### **Remuneration Policy**

The remuneration policy of KTL Technologies Limited has been designed to align director objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The Board of KTL Technologies Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the company, as well as create goal congruence between directors and shareholders.

The Board's policy for determining the nature and amount of remuneration for board members is as follows:

The remuneration policy, setting the terms and conditions (where appropriate) for the executive directors and other senior staff members, was developed by the Chairman and approved by the Board.

In determining competitive remuneration rates, the Board (where appropriate) seeks independent advice on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans. Independent advice may be obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

The Company is in a commercialisation phase, and therefore speculative in terms of performance. Consistent with (and where appropriate) attracting and retaining talented executives, directors and senior executives, are paid market rates associated with individuals in similar positions within the same industry. Options and performance incentives may be issued and key performance indicators such as profit and share price growth can be used as measurements for assessing executive performance.

All remuneration paid to directors is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Chairman in consultation with independent advisors (where appropriate) determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting and is currently \$300,000 per annum approved by shareholders on 4 March 2005. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

#### **COMPANY SHARE PERFORMANCE & SHAREHOLDER WEALTH**

During the financial year the Company's share price traded between a low of **\$0.005** and a high of **\$0.029**. In order to keep all investors fully-informed and minimise market fluctuations the Board is determined to maintain promotional activity amongst the investor community so as to increase awareness of the Company.

#### **DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS**

##### **(a) Details of Specified Directors and Specified Executives**

###### *Specified Directors*

Weiwen Cheng – Non-Executive Director

Qingquan Cheng – Non-Executive Director

Dayong Hu– Non-Executive Chairman (since 1 September 2008), Non-Executive Director (until 1 September 2008)

Russell Byfield – Non-Executive Director (resigned on 11 July 2008)

Haolin Li - Non-Executive Director

Gang Xu - Non-Executive Director

Rachel Wong - Non-Executive Director (appointed on 1 September 2008)

###### *(ii) Specified Executives*

Dayong Hu – General Manager (appointed on 1 January 2008)

Rachel Wong – Company Secretary (appointed on 10 September 2007)

Directors' remuneration and other terms of employment are reviewed annually by the Board having regard to performance against goals set at the start of the year, relative comparative information and independent expert advice.

Except as detailed in Notes (a) – (f) to the Remuneration Report, no director has received or become entitled to receive, during or since the financial period, a benefit because of a contract made by the Company or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors and shown in Notes (a) – (f) to the Remuneration Report, prepared in accordance with the Corporations regulations, or the fixed salary of a full time employee of the Company.

**(b) Remuneration of Specified Directors and Specified Executives**

*Remuneration Policy*

The Board of Directors, comprising of non-executive directors, is responsible for determining and reviewing compensation arrangements. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Remuneration of Specified Directors for the Company and consolidated entity is set out below.

| Period ended:   | Short-term employee benefits | Equity Compensation | Post-employment              | TOTAL          |
|---|------------------------------|---------------------|------------------------------|----------------|
|   | Base Salary and Fees         | Value of Options    | Superannuation Contributions |                |
|   | \$                           | \$                  | \$                           | \$             |
| <b>Specified Directors</b>                            |                              |                     |                              |                |
| <b>Weiwen Cheng</b>                                   |                              |                     |                              |                |
| 31 December 2008                                      | 30,000                       | -                   | -                            | 30,000         |
| 31 December 2007                                      | 30,000                       | -                   | -                            | 30,000         |
| <b>Qingquan Cheng</b>                                 |                              |                     |                              |                |
| 31 December 2008                                      | 30,000                       | -                   | -                            | 30,000         |
| 31 December 2007                                      | 30,000                       | -                   | -                            | 30,000         |
| <b>Dayong Hu</b>                                      |                              |                     |                              |                |
| 31 December 2008                                      | 30,000                       | -                   | -                            | 30,000         |
| 31 December 2007                                      | 30,000                       | -                   | -                            | 30,000         |
| <b>Russell Byfield (resigned on 11 July 2008) (i)</b> |                              |                     |                              |                |
| 31 December 2008                                      | 39,232                       | -                   | -                            | 39,232         |
| 31 December 2007                                      | 32,500                       | -                   | -                            | 32,500         |
| <b>Rachel Wong (appointed on 1 September 2008)</b>    |                              |                     |                              |                |
| 31 December 2008                                      | 10,000                       | -                   | -                            | 10,000         |
| 31 December 2007                                      | -                            | -                   | -                            | -              |
| <b>Haolin Li</b>                                      |                              |                     |                              |                |
| 31 December 2008                                      | 31,048                       | -                   | -                            | 31,048         |
| 31 December 2007                                      | -                            | -                   | -                            | -              |
| <b>Gang Xu</b>  |                              |                     |                              |                |
| 31 December 2008                                      | 31,048                       | -                   | -                            | 31,048         |
| 31 December 2007                                      | -                            | -                   | -                            | -              |
| <b>Lei Li (appointed on 1 April 2008)</b>             |                              |                     |                              |                |
| 31 December 2008                                      | -                            | -                   | -                            | -              |
| 31 December 2007                                      | -                            | -                   | -                            | -              |
| <b>Totals</b>   |                              |                     |                              |                |
| <b>31 December 2008</b>                               | <b>201,328</b>               | <b>-</b>            | <b>-</b>                     | <b>201,328</b> |
| 31 December 2007                                      | 200,685                      | -                   | 723                          | 201,408        |
| <b>Specified Executive</b>                            |                              |                     |                              |                |
| <b>Dayong Hu (appointed on 1 January 2008) (ii)</b>   |                              |                     |                              |                |
| 31 December 2008                                      | 201,100                      | -                   | -                            | 201,100        |
| 31 December 2007                                      | -                            | -                   | -                            | -              |
| <b>Rachel Wong(iii)</b>                               |                              |                     |                              |                |
| 31 December 2008                                      | 156,483                      | -                   | -                            | 156,483        |
| 31 December 2007                                      | 58,972                       | -                   | -                            | 58,972         |
| <b>Totals</b>   |                              |                     |                              |                |
| <b>31 December 2008</b>                               | <b>357,583</b>               | <b>-</b>            | <b>-</b>                     | <b>357,583</b> |
| 31 December 2007                                      | 58,972                       | -                   | -                            | 58,972         |

- (i) In the twelve months to 31 December 2008, consulting fees of \$39,232 (2007: \$30,000) were paid and accrued to Strategy Central Pty Ltd for technical services provided by Mr Russell Byfield. Mr Byfield is a director and shareholder of Strategy Central Pty Ltd.
- (ii) In the twelve months to 31 December 2008, fees of \$201,100 (31 December 2007: \$Nil) were paid and or accrued to Lion Liaison Limited (a associated entity of Mr Hu), for the services provided for the year in his role as the General Manager the Company.
- (iii) In the twelve months to 31 December 2008, fees of \$156,483 (31 December 2007: \$58,972) were paid and or accrued to Abilia Pty Limited (a Company in which Ms Wong is a Director and Shareholder), for company secretarial and accounting services provided for the year in its role as consultant to the Company.

All transactions were entered into on normal commercial terms.

**(d) Remuneration Options: Granted and vested during the financial year ending 31 December 2007 and the financial year ending 31 December 2008**

On 4 March 2005 shareholders approved the issue of a total of 6 million options (for no consideration) as follows:

- 1 million options exercisable at \$0.0125 before 4 March 2010 to a nominee of Mr John Fletcher.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to Ms Cheng Weiwen.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to Mr Cheng Qingquan.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to Mr Hu Dayong.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to a nominee of Mr Russell Byfield.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to a nominee of Mr Barry Woodhouse.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 1.25 cents. The options are escrowed and may only be exercised after 4 March 2008, and expire 4 March 2010. All options vest 36 months after issue and are not performance related.

On 29 July 2005 shareholders approved the issue of a total of 9 million options (for no consideration) as follows:

- 3 million options exercisable at \$0.0125 before 29 July 2010 to a nominee of Mr John Fletcher.
- 3 million options exercisable at \$0.0125 before 29 July 2010 to a nominee of Mr Russell Byfield.
- 3 million options exercisable at \$0.0125 before 29 July 2010 to a nominee of Mr Barry Woodhouse.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 1.25 cents. The options are escrowed and may only be exercised after 29 July 2007, and expire 29 July 2010. All options vest 24 months after issue and are not performance related.

On 29 May 2006 shareholders approved the issue of a total of 12 million options (for no consideration) as follows:

- 2 million options exercisable at \$0.05 before 29 May 2011 to a nominee of Mr John Fletcher.
- 2 million options exercisable at \$0.05 before 29 May 2011 to Ms Cheng Weiwen.
- 2 million options exercisable at \$0.05 before 29 May 2011 to Mr Cheng Qingquan.
- 2 million options exercisable at \$0.05 before 29 May 2011 to Mr Hu Dayong.
- 2 million options exercisable at \$0.05 before 29 May 2011 to a nominee of Mr Russell Byfield.
- 2 million options exercisable at \$0.05 before 29 May 2011 to a nominee of Mr Barry Woodhouse.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 5.00 cents. The options are escrowed and may only be exercised after 29 May 2008, and expire 29 May 2011. All options vest 24 months after issue and are not performance related.

**Basis of valuation**

The Black & Scholes methodology has been used, together with the following assumptions for the options issued on 29 May 2006:

- The risk free rate is the Commonwealth Government securities rate with a maturity date approximating that of the expiration period of the Incentive Options as at 29 May 2006 – 6.25%;
- The underlying security spot price used for the purposes of the valuation is based on the share price of the Company was \$0.015;
- The volatility factor is set as 70% which is based on an average of comparable companies' historical data from the Australian Graduate School of Management's Risk Measurement Service.

**(e) Share and Option holdings**

All equity dealings with directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

**Shares held by Specified Directors**

**Period from 1 January 2008 to 31 December 2008**

|                  | Balance at<br>beginning<br>of year | Received as<br>Remuneration | Options<br>Exercised | Net Change<br>Other | Balance at end<br>of year |
|------------------|------------------------------------|-----------------------------|----------------------|---------------------|---------------------------|
| Weiweng Cheng    | 27,000,000                         | -                           | -                    | -                   | 27,000,000                |
| Qingquan Cheng   | 3,000,000                          | -                           | -                    | -                   | 3,000,000                 |
| Dayong Hu        | 5,000,000                          | -                           | -                    | -                   | 5,000,000(i)              |
| Russell Byfield* | 7,000,000                          | -                           | -                    | 800,000             | 7,800,000(ii)             |
| Rachel Wong**    | 3,746,000                          | -                           | -                    | 650,000             | 4,396,000 (iii)           |
| Haolin Li        | -                                  | -                           | -                    | -                   | -                         |
| Gang Xu          | -                                  | -                           | -                    | -                   | -                         |
|                  | 45,746,000                         | -                           | -                    | -                   | 46,396,000                |

- i. Held indirectly by Ms Lei Li, wife of Mr Hu.
  - ii. Held indirectly by Mr R Byfield as director of Strategy Central Pty Ltd who is trustee of the Strategy Central Management Trust.
  - iii. Held indirectly by Mr Yim Ming Wong and Ms Elizabeth Lai, parents of Ms Wong.
- \* Russell Byfield resigned as director on 11 July 2008.  
\*\* Rachel Wong was appointed as director on 1 September 2008.

**Period 1 January 2007 to 31 December 2007**

|                  | Balance at<br>beginning of year | Received as<br>Remuneration | Options<br>Exercised | Net Change<br>Other | Balance at end of<br>year |
|------------------|---------------------------------|-----------------------------|----------------------|---------------------|---------------------------|
| John Fletcher*   | 29,861,854                      | -                           | -                    | 3,600,593           | 33,462,447 (i)            |
| Cheng Weiwen     | 27,000,000                      | -                           | -                    | -                   | 27,000,000                |
| Cheng Qingquan   | 3,000,000                       | -                           | -                    | -                   | 3,000,000                 |
| Hu Dayong        | 5,000,000                       | -                           | -                    | -                   | 5,000,000(ii)             |
| Russell Byfield* | 7,000,000                       | -                           | -                    | -                   | 7,000,000(iii)            |
| Barry Woodhouse* | 1,000,000                       | -                           | -                    | -                   | 1,000,000(iv)             |
| Haolin Li        | -                               | -                           | -                    | -                   | -                         |
| Gang Xu          | -                               | -                           | -                    | -                   | -                         |
|                  | 72,861,854                      | -                           | -                    | 3,600,593           | 76,462,447                |

- i. Held indirectly by FF Financial Services Limited, Cleveland Investment Group Limited and Asian Cleveland Limited.
  - ii. Held indirectly by Ms Li Lei, wife of Mr Hu Dayong.
  - iii. Held indirectly by Mr R Byfield as director of Strategy Central Pty Ltd who is trustee of the Strategy Central Management Trust.
  - iv. Held indirectly by Mr B Woodhouse as trustee for the Woodhouse Trust. Mr Woodhouse is a beneficiary of the Woodhouse Trust.
- \* John Fletcher and Barry Woodhouse resigned as directors on 17 December 2007. Russell Byfield resigned as director on 11 July 2008.

**Options Held By Specified Directors**  
 Period from 1 January 2008 to 31 December 2008

|                 | Balance at beginning of year | Received as Remuneration | Net Change Other | Balance at end of year | Total Vested | Total Exercisable+ |
|-----------------|------------------------------|--------------------------|------------------|------------------------|--------------|--------------------|
| Weiwen Cheng    | 3,000,000                    | -                        | -                | 3,000,000              | 3,000,000    | -                  |
| Qingquan Cheng  | 3,000,000                    | -                        | -                | 3,000,000              | 3,000,000    | -                  |
| Dayong Hu       | 3,000,000                    | -                        | -                | 3,000,000              | 3,000,000    | -                  |
| Russell Byfield | 6,000,000                    | -                        | -                | 6,000,000              | 6,000,000    | 3,000,000          |
| Rachel Wong*    | 1,808,000                    | -                        | 800,000          | 2,608,000              | 2,608,000    | 2,608,000          |
| Haolin Li       |                              |                          |                  |                        |              |                    |
| Gang Xu         |                              |                          |                  |                        |              |                    |
| Lei Li**        |                              |                          |                  |                        |              |                    |
|                 | 16,808,000                   | -                        | 800,000          | 17,608,000             | 17,608,000   | 5,608,000          |

+ Please note that these options have yet to be exercised, and refers to options that can be exercised.

(i) Refer to note (d) above for terms of options granted to directors.

\* Rachel Wong was appointed as director on 1 September 2008.

\*\* Lei Li was appointed as alternate director to Weiwen Cheng on 1 April 2008.

**Period from 1 January 2007 to 31 December 2007**

|                  | Balance at beginning of year | Received as Remuneration | Net Change Other | Balance at end of year | Total Vested | Total Exercisable+ |
|------------------|------------------------------|--------------------------|------------------|------------------------|--------------|--------------------|
| John Fletcher*   | 10,750,000                   | -                        | -                | 10,750,000             | 10,750,000   | 7,750,000          |
| Weiwen Cheng     | 3,000,000                    | -                        | -                | 3,000,000              | 3,000,000    | -                  |
| Qingquan Cheng   | 3,000,000                    | -                        | -                | 3,000,000              | 3,000,000    | -                  |
| Dayong Hu        | 3,000,000                    | -                        | -                | 3,000,000              | 3,000,000    | -                  |
| Russell Byfield  | 6,000,000                    | -                        | -                | 6,000,000              | 6,000,000    | 3,000,000          |
| Barry Woodhouse* | 6,000,000                    | -                        | -                | 6,000,000              | 6,000,000    | 3,000,000          |
|                  | 31,750,000                   | -                        | -                | 31,750,000             | 31,750,000   | 13,750,000         |

\* John Fletcher and Barry Woodhouse resigned as directors on 17 December 2007.

**(f) Other key management personnel transactions**

During the year ended 31 December 2008, there were no other key management personnel transactions other than those disclosed above.

During the year ended 31 December 2007:

(i) The Group used the consultancy services of Lion Liason Limited (an associate company of Mr Hu) in relation to fund raising. A fee of \$59,381 was paid. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

(ii) The Group used the consultancy services of Somerley Limited (a Company in which Mr Fletcher is a Director and Shareholder) in relation to pre-acquisition investigation of JHSM. A fee of \$47,136 was paid. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

**Loans from the Company**

Interest is charged on the inter-company loan at a rate of 7% per annum on the outstanding balance. A total of \$37,048 (2007:\$30,317), and \$171,759 (2007:\$nil) has been charged to KTL Uranium Limited and Jilin Huisheng Strong Magnet Company Limited for respective outstanding balances between the companies.

**Loans to Company**

There were no loans made to the Company for the financial years ended 31 December 2008 (2007: nil).

**NOTE 27 – GROUP ENTITIES**

Parent Entity – KTL Technologies Limited

|   | Note | Country of incorporation | Proportion of ownership |      |
|---|------|--------------------------|-------------------------|------|
|   |      | Residence                | 2008                    | 2007 |
| <b>Significant subsidiaries</b>                         |      |                          |                         |      |
| KTL Uranium Limited                                     |      | Australia                | 100%                    | 100% |
| KTL Technologies HK Limited*                            |      | HKSAR                    | -                       | 100% |
| Jilin Australia Energy Technology Company Limited       |      | China                    | 100%                    | 100% |
| Jilin Huisheng Strong Magnet Company Limited*           | 7,8  | China                    | -                       | 65%  |
| Beijing Beililong Magnet Material Technology Co. Ltd. * | 7,8  | China                    | -                       | 33%  |

\*On 24 December 2008 the Group disposed its entire Magnet Material segment (JHSM and BBMMT) and KTL Technologies Hong Kong Limited by in specie distribution. These companies were not discontinued operations or classified as held for sale as at 31 December 2007 and the comparative income statement has been re-presented to show the discontinued operation separately from continuing operations. Management committed to a plan to dispose these companies late in 2008 due to the strategic decision to solely focus on its mineral business,

The Company has no investments in associates and no jointly controlled entities.

**NOTE 28 – SHARE CAPITAL**

|  | Parent Entity<br>2008<br>Shares | Parent Entity<br>2007<br>Shares | Parent Entity<br>2008<br>\$ | Parent Entity<br>2007<br>\$ |
|--|---------------------------------|---------------------------------|-----------------------------|-----------------------------|
| <b>Authorised:</b> Ordinary shares – no par value              |                                 |                                 |                             |                             |
| <b>Issued:</b> Ordinary shares – no par value<br>Issued shares |                                 |                                 |                             |                             |
| <b>Reconciliation of movement during year</b>                  |                                 |                                 |                             |                             |
| Opening balance  | 386,828,228                     | 264,860,047                     | 6,330,213                   | 2,393,667                   |
| Share issue – 22 May 2007                                      |                                 | 25,000,000                      |                             | 750,000                     |
| Share issue – 25 September 2007                                |                                 | 95,756,060                      |                             | 3,159,950                   |
| Share issue – 28 September 2007                                |                                 | 1,212,121                       |                             | 40,000                      |
| Costs of share capital   | -                               | -                               |                             | (13,404)                    |
| Share issue – 7 May 2008                                       | 50,000,000                      |                                 | 1,250,000                   | 1,250,000                   |
| Share issue – 20 November 2008                                 | 3,500,000                       |                                 | 53,850                      | 53,850                      |
| Costs of share capital   |                                 |                                 | (9,100)                     | (9,100)                     |
| Closing balance  | 440,328,228                     | 386,828,228                     | 7,624,963                   | 6,330,213                   |

**NOTE 29 – OPTION RESERVE**

|   | Parent Entity<br>2008<br>Options | Parent Entity<br>2007<br>Options | Parent Entity<br>2008<br>\$ | Parent Entity<br>2007<br>\$ |
|---|----------------------------------|----------------------------------|-----------------------------|-----------------------------|
| Total Options                                 | 107,000,000                      | 110,500,000                      | 408,804                     | 427,654                     |
| <b>Reconciliation of movement during year</b> |                                  |                                  |                             |                             |
| Opening balance                               | 110,500,000                      | 18,500,000                       | 427,654                     | 427,654                     |
| Option issue – 1 May 2006                     | -                                | 10,000,000                       | -                           | -                           |
| Option issue – 29 May 2006                    | -                                | 12,000,000                       | -                           | -                           |
| Option issue – 28 July 2006                   | -                                | 40,000,000                       | -                           | -                           |
| Option issue – 9 October 2006                 | -                                | 5,000,000                        | -                           | -                           |
| Option issue – 15 November 2006               | -                                | 25,000,000                       | -                           | -                           |
| Option exercise – 20 November 2008            | (3,500,000)                      |                                  | (18,850)                    |                             |
| Closing balance                               | 107,000,000                      | 110,500,000                      | 408,804                     | 427,654                     |

**NOTE 30 – SIGNIFICANT AFTER BALANCE DATE EVENTS**

There are currently no matters or circumstances that have arisen since the end of the financial period that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

**NOTE 31 – AUDITORS' REMUNERATION**

For the year ended 31 December 2008

|                                       | Consolidated  |               | Parent        |               |
|---------------------------------------|---------------|---------------|---------------|---------------|
|                                       | 2008          | 2007          | 2008          | 2007          |
|                                       | \$            | \$            | \$            | \$            |
| <b>Audit Services</b>                 |               |               |               |               |
| Auditor of the Company                |               |               |               |               |
| PKF Perth:                            |               |               |               |               |
| Audit and review of financial reports | 70,485        | 39,723        | 53,159        | 39,723        |
|                                       | <b>70,485</b> | <b>39,723</b> | <b>53,159</b> | <b>39,723</b> |
| Other auditors                        |               |               |               |               |
| Audit and review of financial reports | -             | 1,216         | -             | -             |
|                                       | <b>70,485</b> | <b>40,939</b> | <b>53,159</b> | <b>39,723</b> |
| <b>Other services</b>                 |               |               |               |               |
| Auditor of the Company                | -             | -             | -             | -             |
| PKF Perth:                            | -             | -             | -             | -             |
| Other assurance services              | -             | -             | -             | -             |
| Taxation services                     | 7,820         | -             | 7,820         | -             |
| PKF Perth related practices           | -             | -             | -             | -             |
| Due diligence services                | -             | -             | -             | -             |