

**SUPERSORB ENVIRONMENTAL**  
**NL**  
(ABN 29 060 352 990)

**Annual Report**  
30 June 2007

**SUPERSORB ENVIRONMENTAL NL**  
**ABN 29 060 352 990**

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**SUPERSORB ENVIRONMENTAL NL**  
**ABN 29 060 352 990**

**DIRECTORS' REPORT**

**For the Reporting period ended 30 June 2007**

Your directors submit the financial report of Supersorb Environmental NL ("Company") for the reporting period ended 30 June 2007.

**Directors**

The names of the directors of the Company in office during the reporting period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Bradley Sourness (Appointed 23 December 2002)  
Martin Shuttleworth (Appointed 23 December 2002)  
Anthony Parry (Appointed 9 September 1993, Resigned 25 March 2008)

**Review of operations**

During the year ended 30 June 2007 the company acquired interests in tin and molybdenum exploration properties with a view to changing focus from industrial minerals production and retail products marketing, to minerals exploration. The interests of the Company are in the two following tenement sites.

**Khartoum North Queensland (100% interest)**

The Khartoum Project of about 33km<sup>2</sup> is located about 100km southwest of the town of Mareeba in north Queensland, 14km southwest of the hamlet of Almaden. Almaden is linked to Mareeba by bitumen road.

Access to the area is good as the Almaden to Forsayth road, a well maintained gravel road, runs through the project area. The Savannah Lander railway line from Forsayth to Cairns passes through the project area but is only suitable for very light railcar traffic.

The Khartoum project 100km south west of Mareeba in North Queensland contains numerous old molybdenum prospects that were abandoned before 1919. Production from the field was small with probably around 50t of molybdenite being mined with the Kitchener Mine being the largest producer. The mineralization is hosted in a complex of granitic intrusions. Most of the mineralization seems to be close to the contact between the coarse grained Kitchener Granite and the other granite bodies especially the Martin Creek Microgranite. Only limited systematic modern exploration has been undertaken with no drilling in the immediate vicinity of the old workings.

Supersorb is planning a program of geochemical sampling including rock chip, soil and drainage sampling together with geological mapping and prospecting. A detailed aeromagnetic survey is proposed as part of the initial program which will attempt to locate structures and other targets which may host mineralization. It is expected this work will identify drilling targets.

**Jeannie River North Queensland (100% interest)**

The project covers approximately 22km<sup>2</sup> (part of northern three sub-blocks lies within the Cape Melville National Park (Cape Melville NP) and are therefore excluded from the EPM) .It is located about 250km northwest of Cairns, about 90km northwest of Cooktown by air. The project area is accessed by 4WD track from Cooktown via Starcke and Munburra Homesteads then to Wakooka outstation and then on non-maintained station tracks, the road distance from Cooktown is about 150km.

Jeannie River about 90km northwest of Cooktown in North Queensland is remote and does not currently have viable road access. It contains three tin prospects discovered around 1980. The northern boundary of the project abuts the Cape Melville National park.

The main Jeannie River prospect contains three mineralised zones partially defined by percussion and diamond drilling with tin intercepts exceeding 0.5%Sn. None of the zones has been closed-off and there is indication of mineralization between the zones.

The Saddle Hill prospect has been partially percussion drilled with tin intercepts exceeding 0.5% tin. While close to the northern boundary of the project most of the prospect, including the mineralised intercepts, is in the project area.

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**DIRECTORS' REPORT CONTINUED**

The Radio Hill prospect, discovered by geological mapping and rock chip sampling has not been drilled and remains to be tested.

The mineralization is hosted mainly by quartz sulphide veins in metasediments but may be related to the Saddle Hill Granite on the northern edge of the project area. Drill core from past exploration is stored on site and is in generally good condition. Most old drill holes have been marked and can therefore be accurately located.

Supersorb's program will include a comprehensive assessment of the existing data, including the drill core, together with a detailed aeromagnetic survey which should assist in locating potential new drill targets. Drilling will be undertaken on the known targets as well as new targets that may be identified.

**Results of Operations**

The Consolidated entity recorded a net loss for the year to 30 June 2007 of \$3,854,232 (30 June 2006, restated for prior year error loss \$4,206,017).

The significant current period losses are mainly attributable to the expenses in relation to exploration, the revision of asset carrying values in line with contractual sale value and accrued interest on significant ATO liabilities.

**Subsequent events**

A number of significant corporate events have occurred since that reporting period:

- On 22 February 2008, the Directors Company appointed Kim Strickland, Christopher Williamson and David Hurt of SimsPartners Chartered Accountants (now WA Insolvency Solutions Pty Ltd) as Administrators of the Company (Administrator).
- At a meeting on 13 June 2008, the creditors resolved that the Company enter into a Deed of Company Arrangement (DOCA), which was executed on 4 July 2008.

On 4 July 2008:

- (a) the Company and Kimberley Andrew Strickland, Christopher Michael Williamson and David Ashley Norman Hurt (Trustee) executed the Creditor's Trust Deed, under which the:
  - (i) Trustee became the Trustee of the Creditor's Trust;
  - (ii) Company was required to reconstruct and recapitalise the Company by no later than 4 July 2009; and
  - (iii) Company was required, and covenanted, to transfer all assets and liabilities, with the exception of the Bullfinch Royalty Deed and pay the Settlement Sum of \$1,066,333 to the Trustee by no later than 4 July 2009;
- (b) the Company and the Trustee executed a Deed of Charge, under which the:
  - (i) Trustee is entitled to register a second ranking fixed and floating charge against the Company to secure the obligations of the Company referred to in Section 2.1(a)(iii) above; and
  - (ii) Quangi Pty Ltd is entitled to retain its first ranking fixed and floating charge (ASIC charge no. 900156) to secure the debts owed to Quangi Pty Ltd;
- (c) the Company and Supersorb Minerals NL executed a Share Sale Agreement under which Supersorb Minerals NL will transfer all right, title and interests in all of the issued capital of Friends Exploration Pty Ltd to the Company in consideration for the payment of \$200,000;
- (d) the DOCA was terminated on the basis that it had been fully effectuated;
- (e) the Administrators resigned as administrators of the Company; and
- (f) control of the Company reverted to the Directors.

**SUPERSORB ENVIRONMENTAL NL**  
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**DIRECTORS' REPORT CONTINUED**

- On 21 August 2008, the Company, and the Trustee entered into a Reconstruction Deed pursuant to which Trident Capital agreed to facilitate the recapitalisation of the Company referred to below.

Principal Features of the Recapitalisation Proposal, which at the date of this report has not yet taken place;

- (a) **Consolidation of Capital:** Consolidation of the existing issued capital of the Company on a 1 for 30 basis from 721,663,860 shares on issue to 24,055,462 post consolidation shares on issue.
- (b) **Issue of New Shares and New Options to Trident Capital or its nominees:** The issue of 80,000,000 New Shares (in consideration of Trident paying \$400,000 to the Company) and 60,000,000 New Options in the Company, exercisable at 1 cent each at any time on or before 31 December 2012, to Trident Capital or its nominees under the Prospectus to be issued by the Company.
- (c) **Prospectus Issue:** The issue of up to 240,000,000 New Shares in the Company at a price of not less than 1 cent each under a Prospectus to raise not less than \$2.4 million.
- (d) **Issue of New Shares to Major Shareholders:** The Company will issue 50,000,000 New Shares for nil consideration by way of a priority offer to the Major Shareholders; Quangi Pty Ltd and Achilles Pty Ltd.
- (e) **Board Changes:** The board of Directors of the Company will change as soon as practicable after the date of the Prospectus being fully subscribed at which time the Proposed Directors being Mr Keith John, Mr Joe Graziano and Mr Adam Sierakowski will be appointed and such of the Existing Directors as Trident Capital requests will resign.
- (f) **Company Type and New Constitution:** The Company will convert from a public no liability company to a public company limited by shares and adopt a new Constitution.
- (g) **Company Name:** The Company will change its name to "Red Dragon Resources Limited".
- (h) **Acquisition of Friends Exploration Pty Ltd:** Supersorb Environmental NL will acquire all of the issued capital of Friends Exploration Pty Ltd in consideration for the payment of \$200,000 to Supersorb Minerals NL, this is reflected as a liability as at 30 June 2007.

In consideration of the above arrangement, Supersorb Environmental NL are not to pursue recovery of the intercompany loan previously granted to Supersorb Minerals NL. Full provision for non recovery of the loan was effected within the year ended 30 June 2006.

- The Directors; Mr M Shuttleworth and Mr B Souness have entered in to a deed of guarantee for the benefit of Supersorb Minerals NL in the event that the ADE loan is not settled. The guaranteed obligation for which the Directors are jointly and severally liable is \$200,000.
- The change in strategy has been supported by the following post period end activities:
  - i. sold its zeolite mining and processing operations at Willows, Queensland for a total consideration of \$470,000 excluding GST;
  - ii. sold its freehold land at Duaringa Queensland; for a total consideration of \$385,000 including GST and,
  - iii. sold its RiverSafe retail garden products business for a total consideration of \$125,000 excluding GST.

**Dividends**

No dividends were paid or proposed to be paid to members during the reporting period.

**Principal Activities**

The principal activity of the Consolidated Entity during the financial year was the mining, processing and marketing of environmental minerals.

**SUPERSORB ENVIRONMENTAL NL**  
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**DIRECTORS' REPORT CONTINUED**

**Information on Directors**

**Bradley Wade Sounness** (Non Executive Chairman)

**Experience and Expertise**

Mr Sounness is a successful Western Australian Businessman with over 30 years in commerce through a wide variety of businesses

**Other Current Directorships**

Nil

**Former Executive Directorships in the Last Three Years**

Nil

**Interests in Shares and Options**

253,973,008 Ordinary Shares in Supersorb Environmental NL

**Martin Shuttleworth** (Non Executive Chairman)

**Experience and Expertise**

Mr Shuttleworth is a Certified Practising Accountant, with over 20 years experience in finance, taxation and all commercial aspects of a wide variety of businesses. He operates an accounting practice in Albany, Western Australia. He is primarily responsible for financial management.

**Other Current Directorships**

Nil

**Former Executive Directorships in the Last Three Years**

Nil

**Interests in Shares and Options**

56,000,000 Ordinary Shares in Supersorb Environmental NL

**Anthony Nigel Parry B.Sc (Met.), PhD** (Executive Director)

**Experience and Expertise**

Dr Parry holds a Bachelor of Science and Doctor of Philosophy degrees in Metallurgy from the University of NSW. In the past 27 years he has worked in the Australian mining industry, international stockbroking and corporate finance. He is a founding director of Supersorb Environmental NL and has been an Executive Director of Supersorb Minerals NL for the last 9 years. He is primarily responsible for corporate strategy, investor relations, zeolite and retail product operations, exploration strategies and acquisitions, and group reporting.

**Other Current Directorships**

Nil

**Former Executive Directorships in the Last Three Years**

Nil

**Interests in Shares and Options**

1,520,877 Ordinary Shares in Supersorb Environmental NL

**SUPERSORB ENVIRONMENTAL NL**  
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**DIRECTORS' REPORT CONTINUED**

**Company Secretary**

The Company secretary is Mr Craig Lemon whom was appointed on the 7 June 2006. He is currently Supersorb Group Accountant, a position he has held for over 10 years. He holds an Advanced Diploma in Accounting. Mr Lemon has also been the Company Secretary for the Company's wholly owned subsidiary, Supersorb Minerals NL for the past 10 years.

**Likely Developments and expected results of operations**

There were no likely developments in the operations of the Company that were not finalised at the date of this report. Further information on likely developments in the operations of the Company and the expected results of operations have not been included in the financial report because the directors believe it would be likely to result in unreasonable prejudice to the Company.

**Environmental legislation**

The Company complies with all environmental legislation in all jurisdictions it operates in.

**Indemnification and insurance of Directors and Officers**

The Company has paid a premium to insure each Director and each Officer of the Company for all liabilities and costs relating to any claim made against them arising out of their conduct whilst acting as a Director or Officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The total amount of premium payable is \$35,617.

**Meetings of Directors**

The number of meetings of the Company's board of directors held during the reporting period ended 30 June 2007, and the number of meetings attended by each director were:

<b>Name of Director</b>	<b>Number of Meetings - A</b>	<b>Number of Meetings – B</b>
Bradley Wade Sounness	4	4
Martin Shuttleworth	4	4
Anthony Nigel Parry	4	4

A = Number of meetings attended

B = Number of meetings held during the time the director held office during the year

**Remuneration Report**

The remuneration report is set out under the following headings:

- (1) Principles used to determine the nature and amount of remuneration;
- (2) Details of remuneration;
- (3) Service agreements;
- (4) Share-based compensation; and
- (5) Additional information.

**1 Principles used to determine the nature and amount of remuneration (audited)**

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- (i) competitiveness and reasonableness;
- (ii) acceptability to shareholders;
- (iii) performance linkage / alignment of executive compensation;
- (iv) transparency; and
- (v) capital management.

The Company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

**SUPERSORB ENVIRONMENTAL NL**  
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**DIRECTORS' REPORT CONTINUED**

**Alignment to shareholders' interests:**

- (i) focuses on sustained growth in shareholder wealth; and
- (ii) attracts and retains high calibre executives.

**Alignment to program participants' interests:**

- (i) rewards capability and experience; and
- (ii) provides a clear structure for earning rewards.

*Executive directors*

Fees and payments to executive directors reflect the demands which are made on, and the responsibilities of, the directors. Executive directors' fees and payments are reviewed annually by the Board. The Board also ensures that executive directors' fees and payments are appropriate and in line with the market. Executive directors do not receive security based payments as part of their compensation package.

*Retirement allowances and benefits for directors*

There are no retirement allowances or other benefits paid to directors.

*Directors' fees*

The amount of remuneration of the directors of the Company (as defined in AASB 124 [Related Party Disclosures]) is set out in the following table. During the period there were no executives other than the directors.

**2 Details of Remuneration (audited)**

<b>2007</b>	<b>Fees paid to director or related entity \$</b>	<b>Salary &amp; Consultation fees \$</b>	<b>Super - annuation \$</b>	<b>Security based payment \$</b>	<b>Total \$</b>
<b>Name of directors</b>					
Bradley Wade Sounness	20,000	-	-	-	20,000
Martin Shuttleworth	20,000	50,000	-	-	70,000
Anthony Nigel Parry	20,000	169,709	-	-	189,709
<b>Totals</b>	<b>60,000</b>	<b>219,709</b>	<b>-</b>	<b>-</b>	<b>279,709</b>

<b>2006</b>	<b>Fees paid to director or related entity \$</b>	<b>Salary &amp; Consultation Fees \$</b>	<b>Super - annuation \$</b>	<b>Security based payment \$</b>	<b>Total \$</b>
<b>Name of directors</b>					
Bradley Wade Sounness	20,000	49,791	4,481	-	74,272
Martin Shuttleworth	20,000	81,789	-	-	101,789
Anthony Nigel Parry	20,000	137,597	-	-	157,597
<b>Totals</b>	<b>60,000</b>	<b>269,177</b>	<b>4,481</b>	<b>-</b>	<b>333,658</b>

**3 Service Agreements (audited)**

There are no service agreements with directors. As at the date of this report there are no executives or management personnel, other than the directors, engaged by the Company. Executive directors serve on a month to month basis and there are no termination payments payable.

**4 Share Based Compensation**

There is currently no provision in policies of the consolidated entity for the provision of share based compensation to directors or senior executives.

**SUPERSORB ENVIRONMENTAL NL**  
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**DIRECTORS' REPORT CONTINUED**

**5 Additional Information (unaudited)**

There was no share-based or option-based compensation paid to executive directors during the financial year.

**Proceedings on Behalf of the Company**

No person has applied to the court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the court under Section 237 of the *Corporations Act 2001*.

**Non Audit Services**

The Company may decide to employ its auditor PKF on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or Group are important.

During the year there were no non-audit services provided.

**Auditors' Independence Declaration**

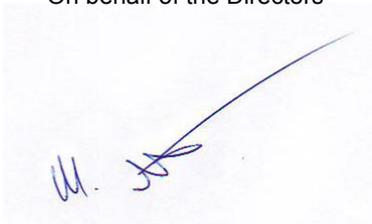
A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 10 and forms part of this directors' report.

**Auditor**

PKF Chartered Accountants and Business Advisors were the appointed auditors of the Company on 27<sup>th</sup> of April 2007 and remain in office in accordance with Section 327 of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors.

On behalf of the Directors

A handwritten signature in blue ink, appearing to read 'M. Shuttleworth', with a long, sweeping flourish extending upwards and to the right.

Martin Shuttleworth  
Director  
Perth

Dated at Perth, Western Australia on this 8 December 2008

A handwritten signature in black ink, appearing to read 'B Sounness', with a long, sweeping flourish extending to the right.

B Sounness  
Director

Dated in Perth, Western Australia on this 8 December 2008



Chartered Accountants  
& Business Advisers

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Supersorb Environmental NL for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Supersorb Environmental NL and the entities it controlled during the year.

**PKF**  
Chartered Accountants

**Conley Manifis**  
Partner

Dated at Perth, Western Australia on the 8<sup>th</sup> day of December 2008

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PKF is a national association of independent chartered accounting and consulting firms, each trading as PKF. PKF Australia Ltd is also a member of PKF International, an association of legally independent chartered accounting and consulting firms.

**SUPERSORB ENVIRONMENTAL NL**  
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**INCOME STATEMENT**  
For the year ended 30th June 2007

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
Revenue		-	-	-	-
Cost of sales		-	-	-	-
Gross profit		-	-	-	-
Other income	3 (a)	<b>28,107</b>	218,667	<b>3,905</b>	114,750
Selling and promotional expenses		-	-	-	-
Bad debt provision	2	-	-	-	(4,766,720)
Administration expenses		<b>(706,248)</b>	(632,882)	<b>(158,513)</b>	(64,607)
Depreciation and amortisation		<b>(6,750)</b>	-	-	(1,230)
Exploration costs write-off	9	<b>(964,459)</b>	-	-	-
Employee benefit expenses	3 (c)	<b>(60,000)</b>	(60,000)	<b>(40,000)</b>	(60,000)
Net Finance expenses	3 (b)	<b>(1,006,375)</b>	238,514	<b>(55,914)</b>	(43,222)
<b>Loss before income tax expense</b>		<b>(2,715,725)</b>	(235,701)	<b>(250,522)</b>	(4,821,029)
Income tax relating to ordinary activities	6	-	-	-	-
Loss after tax but before profit and loss, and loss on sale of discontinued operation		<b>(2,715,725)</b>	(235,701)	<b>(250,522)</b>	(4,821,029)
Loss of discontinued operation	4	<b>(1,138,507)</b>	(3,973,316)	-	-
<b>Profit/(loss) attributable to members of the parent entity</b>		<b>(3,854,232)</b>	(4,209,017)	<b>(250,522)</b>	(4,821,029)
Basic earnings per share (cents per share)	22	<b>(0.005)</b>	(0.006)		
Diluted earnings per share (cents per share)	22	<b>(0.005)</b>	(0.006)		

**SUPERSORB ENVIRONMENTAL NL**  
**ABN 29 060 352 990**

**BALANCE SHEET**  
As at 30<sup>th</sup> June 2007

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
<b>Current Assets</b>					
Cash and cash equivalents	19(a)	374,292	857,190	13,301	124,034
Trade and other receivables	7	125,479	417,029	-	-
Inventory		-	218,177	-	-
Other current assets	8	14,900	-	-	-
Assets for disposal group held for sale	4	49,218	-	-	-
<b>Total Current Assets</b>		<b>563,889</b>	1,492,396	<b>13,301</b>	124,034
<b>Non-Current Assets</b>					
Trade and other receivables	7	-	312,492	-	-
Exploration expenditure	9	200,000	-	-	-
Property, plant & equipment	10	27,252	1,049,099	-	-
Other financial assets	11	-	-	-	-
<b>Total Non-Current Assets</b>		<b>227,252</b>	1,361,591	-	-
<b>TOTAL ASSETS</b>		<b>791,141</b>	2,853,987	<b>13,301</b>	124,034
<b>Current Liabilities</b>					
Trade and other payables	12	4,056,403	2,407,263	26,664	65,561
Provision for Employee benefits		13,321	25,298	2,152	-
Interest bearing liabilities	13	12,195	26,707	-	-
<b>Total Current Liabilities</b>		<b>4,081,919</b>	2,459,268	<b>28,816</b>	65,561
<b>Non-Current Liabilities</b>					
Interest bearing liabilities	13	518,882	620,768	505,172	599,259
<b>Total Non-Current Liabilities</b>		<b>518,882</b>	620,768	<b>505,172</b>	599,259
<b>TOTAL LIABILITIES</b>		<b>4,600,801</b>	3,080,036	<b>533,988</b>	664,820
<b>NET LIABILITIES</b>		<b>(3,809,660)</b>	(226,049)	<b>(520,687)</b>	(540,786)
<b>Equity</b>					
Contributed equity	14	18,336,409	18,065,788	18,336,409	18,065,788
Accumulated losses	15	(22,146,069)	(18,291,837)	(18,857,096)	(18,606,574)
<b>NET CAPITAL DEFICIENCY</b>		<b>(3,809,660)</b>	(226,049)	<b>(520,687)</b>	(540,786)

*The accompanying notes form part of these Financial Statements.*

**SUPERSORB ENVIRONMENTAL NL**  
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**STATEMENT OF CHANGES IN EQUITY**  
For the year ended 30<sup>th</sup> June 2007

<i>Consolidated</i>		Issued capital \$	Accumulated losses \$	Total \$
<b>Balance at 1 July 2005</b>	14	18,065,788	(14,082,820)	3,982,968
Loss attributable to members of the parent entity		-	(4,209,017)	(4,209,017)
<b>Balance at 30 June 2006</b>		18,065,788	(18,291,837)	(226,049)
<b>Balance at 1 July 2006</b>	14	<b>18,065,788</b>	<b>(18,291,837)</b>	<b>(226,049)</b>
Shares issued during the year	5	270,621	-	270,621
Profit attributable to members of the parent entity		-	(3,854,232)	(3,854,232)
<b>Balance at 30 June 2007</b>		<b>18,336,409</b>	<b>(22,146,069)</b>	<b>(3,809,660)</b>
<i>Company</i>				
<b>Balance at 1 July 2005</b>	14	18,065,788	(13,785,545)	4,280,243
Loss attributable to members of the parent entity		-	(4,821,029)	(4,821,029)
<b>Balance at 30 June 2006</b>		18,065,788	(18,606,574)	(540,786)
<b>Balance at 1 July 2006</b>	14	<b>18,065,788</b>	<b>(18,606,574)</b>	<b>(540,786)</b>
Shares issued during the year	5	270,621	-	270,621
Loss attributable to members of the parent entity		-	(250,522)	(250,522)
<b>Balance at 30 June 2007</b>		<b>18,336,409</b>	<b>(18,857,096)</b>	<b>(520,687)</b>

*The accompanying notes form part of these Financial Statements.*

**SUPERSORB ENVIRONMENTAL NL**  
**ABN 29 060 352 990**

**CASH FLOW STATEMENT**  
For the year ended 30<sup>th</sup> June 2007

	Note	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>Cash Flows from/(used in) Operating Activities</b>					
Cash receipts in the course of operations		<b>550,978</b>	3,871,841	<b>157,863</b>	2,392
Cash payments in the course of operations		<b>(1,993,599)</b>	(4,708,827)	<b>(122,501)</b>	(197,771)
Interest received		<b>338,372</b>	31,077	<b>3,905</b>	1,168
Interest paid		-	(67,834)	<b>(55,914)</b>	-
Net operating cash flows	19(b)	<b>(1,104,249)</b>	(873,743)	<b>(16,647)</b>	(194,211)
<b>Cash Flows from/(used in) Investing Activities</b>					
Payments for the purchase of property, plant and equipment		-	(880)	-	-
Proceeds from the sale of property, plant and equipment		<b>855,000</b>	23,606	-	-
Proceeds from the sale of non current assets		-	2,182,164	-	-
Payments for purchase of investments		<b>(120,000)</b>			
Proceeds from the sale of investments		-	94,250	-	94,250
Proceeds from the sale of tenements		-	20,000	-	20,000
Net investing cash flows		<b>735,000</b>	2,319,140	-	114,250
<b>Cash Flows from/(used in) Financing Activities</b>					
Payments made in respect of loans advanced		-	(284,000)	-	-
Payments in respect of hire purchase liabilities repaid		<b>(16,812)</b>	(369,810)	-	-
Payments in respect of other loans repaid		<b>(96,837)</b>	(6,875)	<b>(94,086)</b>	-
Proceeds from inter-company loans repaid		-	-	-	202,293
Net financing cash flows		<b>(113,649)</b>	(660,685)	<b>(94,086)</b>	202,293
Net increase/(decrease) in cash		<b>(482,898)</b>	784,712	<b>(110,733)</b>	122,332
Cash and cash equivalents at the beginning of financial year		<b>857,190</b>	72,478	<b>124,034</b>	1,702
<b>Cash and cash equivalents at the end of financial year</b>	19(a)	<b>374,292</b>	857,190	<b>13,301</b>	124,034

*The accompanying notes form part of these Financial Statements.*

**SUPERSORB ENVIRONMENTAL NL**  
**ABN 29 060 352 990**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30<sup>th</sup> June 2007

**1. Statement of significant accounting policies**

Supersorb Environmental NL ('the Company') is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2007 comprises the Company and its subsidiaries (together referred to as the 'Consolidated Entity').

**(a) Statement of compliance**

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards ("AASB's") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") which include the Australian equivalents to International Financial Reporting Standards ("IFRS"). The financial report has also been prepared on a historical cost basis, unless otherwise stated.

The financial report is presented in functional currency which is Australian dollars and amounts have been rounded to the nearest dollar.

**(b) GOING CONCERN**

At the financial year end, the consolidated entity had;

- a net deficiency of assets of \$920,640,
- no cash or revenue generating assets,
- progressed in to Administration and a Deed of Company Arrangement,
- insufficient contractual evidence to support the ability of the company to raise sufficient capital.

The uncertainty of the current economic environment makes it difficult for the entity to raise capital.

These conditions cast significant doubt about the consolidated entity's and parent entity's ability to continue as going concerns.

On 21 August 2008, the Company and the Trustee entered in to a Reconstruction Deed to facilitate the recapitalisation of the Company. The principal features of the recapitalisation proposal are detailed as a subsequent event in note 11.

Should the consolidated entity and the parent entity be unable to continue as a going concern, they may be required to realise their assets and extinguish their liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the consolidated entity and the parent be unable to continue as a going concern.

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**(c) New Standards and Interpretations Not Yet Adopted**

A number of adopted Accounting Standards have been amended, the impacts of these amendments are assessed to have no direct impact on amounts in the financial report. They are available for early adoption at 30 June 2007 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 the Consolidated Entity
<b>New and revised Standards</b>			
AASB 101 Presentation of Financial Statements (Revised)  Removes Australian specific requirements for AASB 101, but incorporates amendments made on the introduction of AASB 7 surrounding the disclosure of the entity's objectives, policies and processes for managing capital. Accordingly early adoption may only be attractive to entities that are also early adopting AASB 7.	Beginning 1 January 2007	Mandatory for half-year ending 30 June 2007  Optional for early adoption for year ending 30 June 2007	AASB 101 is a disclosure standard, so will have no direct impact on amounts in the financial report. However amendments will result in changes in disclosures.
AASB 7 Financial Instruments: Disclosure, AASB 2005-10 Amendments to Australian Accounting Standards  AASB 7 is equivalent to IFRS 7 of the same name and introduces new disclosure requirements in relation to financial instruments. AASB 2005-10 implements various amendments to other standards most notably to implement IASB Amendment to IAS 1 Capital Disclosures	Beginning 1 January 2007	Optional for early adoption for year ending 30 June 2007, no specific disclosure required in interim period.	AASB 7 is a disclosure standard, so will have no direct impact on amounts in the financial report. However amendments will result in changes in disclosures.
Revised guidance on implementing IFRS 4, Insurance Contracts	Beginning 1 January 2007	Mandatory for half-year ending 30 June 2007  Optional for early adoption for year ending 30 June 2007	The Consolidated Entity is not involved in the issuance of insurance contracts; amendments are not expected to have any impact on the financial report.
AASB 123 Borrowing Costs (Revised), AASB 2007-6 Amendments to Australian Accounting Standards  Eliminates the option of expensing borrowing costs relating to qualifying assets, instead requiring capitalisation. Transitional provisions require prospective application to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after application date. An entity may however, designate any date before the application date and apply the Standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date. The Amending Standard eliminates reference to the expensing option in various other pronouncements.	Beginning 1 January 2009	Optional for half-year ending 30 June 2007  Optional for early adoption for year ending 30 June 2007	Unless the Consolidated Entity becomes involved in a qualifying asset in future periods; amendments are not expected to have any impact on the financial report.

**SUPERSORB ENVIRONMENTAL NL**  
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New or revised requirement	Effective for annual reporting periods beginning/ending on or after	More information	Impact on the Consolidated Entity
<p>AASB 8 Operating Segments, AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8</p> <p>AASB 8 replaces AASB 114 Segment Reporting and introduces new 'management approach' to segment reporting to align IFRS and US GAAP. Unlike AASB 114, AASB 8 only applies to entities which have on issue debt or equity securities that are traded in a public market (or which are in the process of issuing any class of instruments in a public market). Therefore, reporting entities that are out of scope of AASB 8 may wish to early adopt this Standard to avoid segment reporting in their financial reports.</p>	Beginning 1 January 2009	<p>Optional for half-year ending 30 June 2007</p> <p>Optional for early adoption for year ending 30 June 2007</p>	AASB 8 is a disclosure standard, so will have no direct impact on amounts in the financial report. However amendments will result in changes in disclosures.
<p>AASB 1049 Financial Reporting of General Government Sectors by Governments</p> <p>This Standard applies to the Australian Government and each State and Territory Government and is therefore of limited relevance to other entities.</p>	Beginning 1 January 2008	<p>Optional for half-year ending 30 June 2007</p> <p>Optional for early adoption for year ending 30 June 2007</p>	The Consolidated Entity is not a general government sector by Governments; amendments are not expected to have any impact on the financial report.
<p>AASB 2007-4 Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments</p> <p>Implements the proposals in ED 151 Australian Additions to, and Deletions from, IFRSs and make various other editorial amendments. New accounting policy choices are introduced and many Australian-specific disclosures deleted. Early adoption of this standard may be attractive to many entities.</p>	Beginning 1 July 2007	<p>Optional for half-year ending 30 June 2007</p> <p>Optional for early adoption for year ending 30 June 2007</p>	The potential impact of the initial application of AASB 2007-4 has not yet been determined.
<p>AASB 2007-5 Amendments to Australian Accounting Standard- Inventories Held for Distribution by Not-for-Profit Entities</p> <p>Amends AASB102 Inventories to require inventories held for distribution by not-for-profit entities to be measured at cost, adjusted when applicable for any loss of service potential.</p>	Beginning 1 July 2007	<p>Optional for half-year ending 30 June 2007</p> <p>Optional for early adoption for year ending 30 June 2007</p>	The Consolidated Entity is not a not-for-profit entity; amendments are not expected to have any impact on the financial report.

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New or revised requirement	Effective for annual reporting periods beginning/ending on or after	More information	Impact on the Consolidated Entity
<b>New Interpretations</b>			
<p>Interpretation 10 Interim Financial Reporting and Impairment</p> <p>Equivalent to IFRIC 10 of the same name. Concludes that where an entity has recognised an impairment loss in an interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost because fair value is not reliably determinable, that impairment should not be reversed in subsequent interim financial statements or in annual financial statements</p>	Beginning 1 November 2006	Mandatory for half-year ending 30 June 2007	The potential impact of the initial application of Interpretation 10 has not yet been determined.
<p>Interpretation 11 AASB2 Group Treasury Share Transactions, AASB 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation 11</p> <p>Equivalent to IFRIC 11 of the same name. Addresses whether certain types of share-based payment transactions with employees (or other supplier of good and services) should be accounted for as equity settled or cash settled transactions under AASB 2.</p>	Beginning 1 March 2007	Optional for half-year ending 30 June 2007 Optional for early adoption for year ending 30 June 2007	Unless the Consolidated Entity becomes involved in a share based payment arrangements in future periods; amendments are not expected to have any impact on the financial report.
<p>Interpretation 12 Service Concession Arrangements, Interpretation 4 Determining whether an Arrangement contains a lease (Revised), Interpretation 129 Service Concession Arrangements: Disclosure (Revised), AASB 2007-2 Amendments to Australian Standards arising from AASB Interpretation 12</p> <p>Equivalent to IFRIC 12 of the same. Addresses the appropriate accounting for service concession arrangements under which private sector entities participate in the development, financing, operation and maintenance of infrastructure for the provision of public services, such as transport, water and energy facilities.</p>	Beginning 1 June 2008	Optional for half-year ending 30 June 2007 Optional for early adoption for year ending 30 June 2007	The Consolidated Entity is not involved in Service Concession Arrangements; amendments are not expected to have any impact on the financial report.
Exposure Drafts Pending Issue as Revised Standards before 31 December 2007			
<p>ED 139: Proposed revision to AASB 3 – Business Combination</p> <p>Reflects the impact of Phase II of the Business Combinations Project by IASB to converge with FASB</p>	Beginning 1 January 2007	Mandatory for year ending 31 December 2007	The potential impact of the initial application of the Exposure Draft has not yet been determined.
<p>ED 141: Proposed revision to AASB 127 – Consolidated and Separate Financial Statements</p> <p>Main changes proposed are consequential changes brought about by revision to AASB 3 under ED 139.</p>	Beginning 1 January 2007	Mandatory for year ending 31 December 2007	As above.
<p>ED 140: Proposed revision to AAS137 – Provisions, Contingent liabilities and Contingent Assets</p> <p>Main changes proposed are consequential changes brought about by revision to AASB 3 under ED 139.</p>	Beginning 1 January 2007	Mandatory for year ending 31 December 2007	As above.

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For the year ended 30<sup>th</sup> June 2007

**(d) Principles of consolidation**

The consolidated financial statements comprise the financial statements of Supersorb Environmental NL and its subsidiaries as at 30 June each year (the Consolidated entity).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated entity and cease to be consolidated from the date on which the control is transferred out of the Consolidated entity.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of subsidiaries for the period from their acquisition.

Minority interests represent the portion of profit and loss and net assets in subsidiaries not held by the Consolidated entity and are presented separately in the income statement and within equity in the consolidated balance sheet.

**(e) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Consolidated entity and the revenue can be reliably measured.

*Sale of Non – Current Assets*

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

*Interest Revenue*

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

**(f) Income tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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For the year ended 30<sup>th</sup> June 2007

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

**(g) Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

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

**(h) Financing costs**

Net financing costs comprise interest payable on borrowings calculated using the effective interest method.

Borrowing costs are expensed as incurred and included in net financing costs.

**(i) Leases**

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

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

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs – refer Note 1(g).

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

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed

**(j) Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**(k) Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**Statement of significant accounting policies Continued**

**(l) Plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	20 years
Leasehold improvements	5 years
Plant and equipment	10 years
Motor Vehicles	4 – 5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

*(i) Impairment*

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

*(ii) Derecognition and disposal*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

**(m) Inventories**

Raw materials are stated at the lower of cost and net realisable value.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**Statement of significant accounting policies Continued**

**(n) Investments and other financial assets**

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured as fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Group commits to purchase the asset.

Listed shares held for trading were carried at net market value. Changes in net market value were recognised as a revenue or expense in determining the net profit for the period.

All other non-current investments were carried at the lower of cost and recoverable amount.  
Recoverable amount

Non-current financial assets measured using the cost basis were not carried at an amount above their recoverable amount, and when a carrying value exceeded this recoverable amount, the financial asset was written down to its recoverable amount. In determining recoverable amount, the expected net cash flows were discounted to their present value using a market determined risk adjusted discount rate.

**(o) Exploration and evaluation expenditure**

Exploration and evaluation costs, including costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights to the area of interest are current and either:

- (i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- (ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 30<sup>th</sup> June 2007

**Statement of significant accounting policies Continued**

**(o) Exploration and evaluation expenditure**

Exploration and evaluation assets are assessed for impairment if:

- a. sufficient data exists to determine technical feasibility and commercial viability, and
- b. facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy 1(o))

For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mining property and development assets within property, plant and equipment.

**(p) Impairment of assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount.

That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**(q) Trade and other payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

**(r) Interest bearing liabilities**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

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**Statement of significant accounting policies Continued**

**(s) Employee benefits**

*Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

*Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

**(t) Share based payments**

*Equity settled transactions:*

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Supersorb Environmental NL (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 22).

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**Statement of significant accounting policies continued**

**(u) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(v) Earnings per share**

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the Company for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus element.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion, by the weighted average number of ordinary shares and potential dilutive ordinary shares, adjusted for any bonus element.

**NOTE 2 CORRECTION OF PRIOR YEAR ERROR**

**The following provides a summary of the effect of this correction on the consolidated entity:**

An error was identified in the estimation applied for recoverability of trade receivables in the prior period. Accordingly, the correction for the prior year error has been made in the year ended 30 June 2007.

**30 June 2006**

The correcting entry for trade receivables is made up as follows:

Trade receivables as previously stated	4,598,504
Correction of prior year error	<u>(4,286,012)</u>
<b>Receivable brought to account in the year ended 30 June 2006</b>	<b><u>312,492</u></b>

Net assets / (liabilities) for the year ended 30 June 2006 before correction of prior year trade and other receivables would have been: 4,059,963

The correcting entry for bad debt provision is made up as follows:

Bad debt provision as previously stated	-
Correction of prior year error	<u>4,286,012</u>
<b>Bad debt expense brought to account in the year ended 30 June 2006</b>	<b><u>4,286,012</u></b>

Net profit for the year ended 30 June 2006 before correction of the prior year bad debt provision would have been: 76,995

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**NOTE 2 CORRECTION OF PRIOR YEAR ERROR CONTINUED**

The following provides a summary of the effect of this correction on the Parent entity:

Reflection of the above bad debt provision within Supersorb Minerals NL gave rise to revision of Supersorb Environmental NL's assessment of recovery in relation to its investment and loan to the subsidiary given its reduced net asset position. The Directors have identified that the estimation applied to impairment and recovery of the loan for the year to 30 June 2006 should be retrospectively increased to reflect nil recovery.

**30 June 2006**

1. The correcting entry for recognition of impairment in relation to the investment in Supersorb Minerals NL	
Other financial assets – Investment in subsidiary	2,306,283
Correction of prior year error	<u>(2,306,283)</u>
<b>Intercompany loan brought to account in the year ended 30 June 2006</b>	<u>-</u>
2. The correcting entry to increase the provision for non recovery on the Supersorb Minerals NL intercompany loan	
Trade and other receivables – Loan to subsidiary	2,460,437
Correction of prior year error	<u>(2,460,437)</u>
<b>Trade and other receivables brought to account in the year ended 30 June 2006</b>	<u>-</u>
Net assets / (liabilities) for the year ended 30 June 2006 before correction of prior year trade and other receivables would have been	4,225,934
The correcting entry for the recognition of impairment of the prior year error is made up as follows:	
Impairment of investment in Supersorb Minerals	2,306,283
Increase in provision for non recovery of the intercompany loan to Supersorb Minerals NL	<u>2,460,437</u>
<b>Bad debt expense brought to account in the year ended 30 June 2006</b>	<u><b>4,766,720</b></u>
Net loss for the year ended 30 June 2006 before correction of the prior year provisions would have been	(54,309)

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**NOTE 3 REVENUE FROM ORDINARY ACTIVITIES**

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>(a)</b>				
Profit on sale of fixed assets	-	43,250	-	43,250
Profit on sale of tenements	-	71,000	-	71,000
Interest received	<b>15,045</b>	-	<b>3,905</b>	-
Sundry income	<b>13,062</b>	104,417	-	500
	<b>28,107</b>	218,667	<b>3,905</b>	114,750

**(b) Loss from ordinary activities before income tax expense**

**Net finance costs**

- Finance (expenses) / revenue	<b>(1,006,375)</b>	238,514	<b>(55,914)</b>	(43,222)
	<b>(1,006,375)</b>	238,514	<b>(55,914)</b>	(43,222)

The finance expense in the year includes the reflection of interest accruing on a liability to the Australian Tax Office.

**(c) Employee benefit expenses**

- Wages and salaries	<b>212,141</b>	298,701	-	-
Less: included in costs of sales	-	(130,478)	-	-
	<b>212,141</b>	168,223	-	-
- Superannuation	-	30,099	-	-
- Provision for employee benefits	-	-	-	-
- Directors fees	<b>60,000</b>	60,000	<b>40,000</b>	60,000
	<b>272,141</b>	258,322	<b>40,000</b>	60,000

**(d) Auditors remuneration**

- Audit services only	<b>22,500</b>	7,040	<b>22,500</b>	2,000
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**NOTE 4 DISCONTINUED OPERATIONS**

**30 June 2007**

Subsequent to the period end, the Company sold its Zeolite mining and processing operations and its Riversafe retail garden products and related inventory for a total consideration of \$595,000. The total of the fixed assets sold following review and reduction to fair value was \$557,945. The discontinued analysis presented is in relation to the current period amounts derived from those operations.

**30 June 2006**

On 30 September 2005, the Company sold its absorbent mineral operations to ADE Environmental Pty Ltd ('ADE') for a contracted purchase consideration of \$6,000,000, as part of the terms of sale ADE was granted a deferred settlement amount of \$4,000,000. Subsequent to this ADE progressed in to administration, giving rise to the reflection of a full bad debt provision in the year to 30 June 2006, refer to note 2. As such the gain on sale previously reported, is restated here to reflect the loss arising from receipt of only \$2,000,000 in consideration of the assets.

The comparative discontinued operations financial performance previously presented has been amended to include reflection of the Zeolite and Riversafe assets now discontinued. This has resulted in reflection of additional losses for 30 June 2006 of \$5,107,135; this includes the increase in bad debt provision of \$4,286,012 as detailed in note 2.

**Financial performance for the period of operations held for sale**

	Notes	30 June 2007	30 June 2006
		\$	\$
Revenue		474,073	2,918,999
Cost of sales		(573,063)	(2,763,947)
Gross loss / profit		<u>(98,990)</u>	155,052
Selling and promotional expenses		(97,494)	(119,172)
Administration expenses		(688,747)	(96,697)
Depreciation and amortisation		(101,223)	(632,205)
Fair value adjustment	(a)	(403,913)	-
Employee benefit expenses		(46,123)	(243,053)
Net finance expenses		-	(5,158)
Bad debts expense	2	-	(4,286,012)
Loss from discontinued operations		<u>(1,436,490)</u>	<u>(5,227,245)</u>
Gain / (loss) on sale of discontinued operation		297,983	1,253,929
Loss on sale of discontinued operation after tax		<u>(1,138,507)</u>	<u>(3,973,316)</u>

**Assets held for sale operations**

Trade and other receivables		-	-
Inventory		49,218	-
Property, plant and equipment	(b)	-	1,021,847

**Net cash flows of discontinued operations**

Operating activities		(1,442,621)	(836,986)
Investing activities		855,000	2,205,770

Notes

- (a) The fair value adjustment is in relation to the recognition of assets held for sale at their net realisable value, being equal to the amount of consideration agreed in the sale contract.
- (b) The items of plant and equipment held at 30 June 2007 in relation to discontinued operations had a nil carrying value.

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**NOTE 5 BUSINESS COMBINATION**

On 24<sup>th</sup> July 2006, Supersorb Minerals NL acquired 100% of the voting shares in Friends Exploration Pty Ltd based in Australia involving in mining exploration activities.

Pursuant to Australian Standard AASB 3 "Business Combination" the acquirer in this business combination was identified as Supersorb Minerals NL

	<i>CONSOLIDATED</i> <i>Recognised on</i> <i>acquisition</i> \$
Cash and cash equivalents	-
Exploration Assets recognised on acquisition	944,621
<b>Total Assets</b>	<b>944,621</b>
Total Liabilities	-
Cost of the combination:	
54,124,788 fully paid shares issued, at fair value	270,621
Cash paid to vendors	574,000
Cash due to vendors	100,000
<b>Total cost of combination</b>	<b>944,621</b>
Goodwill arising on acquisition	-

The cash due to vendors is reflected as a liability at 30 June 2007 and was settled post year end.

**NOTE 6 INCOME TAX**

a) *Income tax recognised in profit and loss*

The prima facie tax expense/benefit on operating result is reconciled to the income tax provided in the financial statements as follows:

	<b>Consolidated</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	\$	\$	\$	\$
Loss before tax from continuing operations	(2,715,725)	(235,701)	(250,522)	(4,821,029)
Loss before tax from discontinued operations	(1,138,507)	(3,973,316)	-	-
<b>Total loss before tax from operations</b>	<b>(3,854,232)</b>	<b>(4,209,017)</b>	<b>(250,522)</b>	<b>(4,821,029)</b>
Income tax expense/(benefit) at 30%	(1,156,270)	(1,262,705)	(75,157)	(1,446,309)
Non deductible expenses	1,007	114,305	-	-
Other deductible expenditure	-	(27,017)	-	(20,460)
Unused tax losses and temporary differences not recognised as deferred tax assets	1,155,263	1,175,417	75,157	1,466,769
<b>Income tax expense per income statement</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The tax rate used is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change to the corporate tax rate during the current or prior reporting period.

b) *Unrecognised deferred tax assets*

**Deferred tax assets have not been recognised in respect of the following items**

Provision for non-recovery	318,814	1,285,804	3,792,591	2,331,000
Accrued expenses and liabilities	11,408	-	7,396	-
Tax losses	3,727,009	3,024,040	1,326,267	1,258,506
<b>Potential deferred tax asset at 30%</b>	<b>4,057,231</b>	<b>4,309,844</b>	<b>5,126,253</b>	<b>3,589,506</b>

The tax losses and temporary differences do not expire under current legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits.

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**NOTE 6 INCOME TAX (cont)**

The deductible temporary differences and tax losses do not expire under current tax legislation. Potential deferred tax assets attributable to tax losses carried forward have not been brought to account because directors do not believe it is appropriate to regard realisation of the future tax benefit as probable.

The potential future income tax benefit will only be obtained if:

- (i) the company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised in accordance with Division 165 of the Income Tax Assessment Act 1997;
- (ii) the company continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the company in realising the benefits.

**NOTE 7 TRADE AND OTHER RECEIVABLES**

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
<b>Current</b>				
Trade debtors	5,479	412,129	-	-
Amounts receivable from the sale of assets	120,000	-	-	-
Sundry debtor	-	4,900	-	-
	<b>125,479</b>	<b>417,029</b>	<b>-</b>	<b>-</b>
<b>Non-Current</b>				
Loan to controlled entity	-	-	10,230,437	10,230,437
Provision for non recoverability (a)	-	-	(10,230,437)	(10,230,437)
Loan – ADE (b)	4,286,012	4,286,012	-	-
Bad debt provision	(4,286,012)	(4,286,012)	-	-
Other loans	-	312,492	-	-
	<b>-</b>	<b>312,492</b>	<b>-</b>	<b>-</b>

(a) The Directors of Supersorb Environmental NL consider the intercompany loan owing from Supersorb Minerals NL as not recoverable given the subsidiaries financial position. As such full recognition for non recovery of this loan is reflected. Refer to note "subsequent events" for details.

(b) Following the sale of assets to ADE in 2005 which included a deferred settlement arrangement the Company progressed in to Administration and as such a bad debt provision for this receivable is reflected as a prior year correction of the previous bad debt estimation. Refer to note 2 for details.

**NOTE 8 OTHER CURRENT ASSETS**

Deposits paid	14,900	-	-	-
	<b>14,900</b>	<b>-</b>	<b>-</b>	<b>-</b>

**NOTE 9 EXPLORATION EXPENDITURE**

Exploration expenses capitalised	1,164,459	-	-	-
Impairment	(964,459)	-	-	-
	<b>200,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the mining areas. The Directors have reviewed the exploration costs capitalised during the year and have reflected impairment accordingly to ensure the carrying value is not exceeding the net amount expected to be recoverable on commencement of production.

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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30th June 2007

**NOTE 10 PROPERTY, PLANT AND EQUIPMENT**

(a) Carrying values	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Buildings</b>				
At cost	-	110,129	-	-
Accumulated depreciation	-	(21,796)	-	-
	-	88,333	-	-
<b>Plant and equipment</b>				
At cost	58,263	1,556,088	-	-
Accumulated depreciation	(51,491)	(684,634)	-	-
	6,772	871,454	-	-
<b>Office furniture and equipment</b>				
At cost	45,136	103,624	-	-
Accumulated depreciation	(41,603)	(89,584)	-	-
	3,533	14,040	-	-
<b>Motor vehicles</b>				
At cost	30,450	169,843	-	-
Accumulated depreciation	(13,503)	(94,571)	-	-
	16,947	75,272	-	-
Total net book value of property, plant and equipment	27,252	1,049,099	-	-

(i) The Directors are of the opinion that the values attributed to plant and equipment provide a reasonable estimate of the recoverable amount.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 10 PROPERTY, PLANT AND EQUIPMENT**  
**(continued)**

	Consolidated		Company	
	2007	2006	2007	2006
(b) Reconciliations	\$	\$	\$	\$
Reconciliations of each class of property, plant and equipment is set out below:				
<b>Buildings</b>				
Carrying amount at the beginning of the year	88,333	1,287,430	-	-
Movement: Additions	-	-	-	-
Disposals	(86,957)	(1,195,295)	-	-
Depreciation	(1,376)	(3,802)	-	-
Carrying amount at the end of the year	-	88,333	-	-
<b>Plant and Equipment</b>				
Carrying amount at the beginning of the year	871,454	3,612,687	-	-
Movement: Fair value adjustment	(403,913)	-	-	-
Disposals	(409,278)	(2,545,143)	-	-
Depreciation	(51,491)	(196,090)	-	-
Carrying amount at the end of the year	6,772	871,454	-	-
<b>Office Equipment</b>				
Carrying amount at the beginning of the year	14,040	35,272	-	-
Movement: Additions	31,096	803	-	-
Disposals	-	(7,304)	-	-
Depreciation	(41,603)	(14,731)	-	-
Carrying amount at the end of the year	3,533	14,040	-	-
<b>Motor Vehicles</b>				
Carrying amount at the beginning of the year	75,272	298,672	-	-
Movement: Additions	-	-	-	-
Disposals	(44,822)	(207,432)	-	-
Depreciation	(13,503)	(15,968)	-	-
Carrying amount at the end of the year (a)	16,947	75,272	-	-
Total carrying value of property plant and equipment	27,252	1,049,099	-	-

Notes:

- (a) The carrying amount in relation to motor vehicles relates to one asset held under a hire purchase agreement. The liabilities at 30 June 2007 are included in note 13.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 11 OTHER FINANCIAL ASSETS**

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Non-Current</b>				
Unlisted shares in controlled entities – at cost	-	-	<b>2,306,283</b>	2,306,283
Impairment of investment	-	-	<b>(2,306,283)</b>	(2,306,283)
	-	-	-	-

The amount shown as unlisted shares in controlled entity represents Supersorb Environmental NL's investment in 100% of the issued capital of Supersorb Minerals NL. The Directors have considered the carrying value of this investment and believe that the investment will not be recoverable, as such full provision has been reflected, refer to note 2.

**NOTE 12 PAYABLES**

<b>Current</b>				
Trade creditors	<b>138,732</b>	75,608	<b>20,548</b>	10,974
Accruals, GST and payroll liabilities	<b>3,917,671</b>	2,155,933	<b>6,116</b>	54,587
ADE clearing account	-	175,722	-	-
	<b>4,056,403</b>	2,407,263	<b>26,664</b>	65,561

All payables are due within 12 months and are therefore reflected as current.

**NOTE 13 INTEREST BEARING LIABILITIES**

<b>Current</b>				
Hire purchase liability	<b>6,195</b>	15,207	-	-
Loan – Department of Trade	<b>6,000</b>	11,500	-	-
	<b>12,195</b>	26,707	-	-
<b>Non-Current</b>				
Shareholder Loan (a)	<b>505,172</b>	599,259	<b>505,172</b>	599,259
Hire purchase liability	<b>13,710</b>	21,509	-	-
	<b>518,882</b>	620,768	<b>505,172</b>	599,259

(a) The Shareholder loan has been provided by Quangi Pty Ltd and Mr B Sounness, details of the loan from this Shareholder are detailed in the key management personnel note 20.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 14 CONTRIBUTED EQUITY**

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>(a) Issued and paid up share capital</b>				
667,539,082 fully paid ordinary shares (2005 – 667,539,082)	<b>18,065,788</b>	18,065,768	<b>18,065,788</b>	18,065,768
54,124,788 fully paid ordinary shares	<b>270,621</b>	-	<b>270,621</b>	-
2,000,000 part paid ordinary shares issued at 3.68 cents per share and paid to 0.001 cents	-	20	-	20
	<b>18,336,409</b>	18,065,788	<b>18,336,409</b>	18,065,788

**(b) Movements in ordinary share capital**

54,124,788 Ordinary shares were issued at a total consideration of \$270,621 for the purchase of Friends Exploration Pty Limited. Refer to note 5 for details of this Business Combination.

**(c) Part paid shares**

2,000,000 part paid shares remain on issue; these shares were issued as part of an executive remuneration package to a former CEO. A call for the unpaid portion of the shares can only be made at the instigation of the holder.

**(d) Options**

At balance date no options were on issue under the Employee Share Option Plan.

**(e) Employee share and option plans**

During the year the following options expired unexercised:

- 1,500,000 options which had been issued to a Director and which were exercisable at 10 cents and expired on 31<sup>st</sup> January 2007.

Employee options are not quoted, and have all vested with the allottees.

**NOTE 15 ACCUMULATED LOSSES**

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Accumulated losses at the beginning of the financial year	<b>(18,291,837)</b>	(14,082,820)	<b>(18,606,574)</b>	(13,785,545)
Net profit (loss) attributable to members of the parent entity	<b>(3,854,232)</b>	(4,209,017)	<b>(250,522)</b>	(4,821,029)
Accumulated losses at the end of the financial year	<b>(22,146,069)</b>	(18,291,837)	<b>(18,857,096)</b>	(18,606,574)

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 16 CONTROLLED ENTITIES**

	<b>Interest Held</b>	
	<b>2007</b>	2006
	%	%
<b>(a) Interests in controlled entities</b>		
<b>Supersorb Environmental NL</b>		
<b>Controlled Entities:</b>		
Supersorb Minerals NL	100	100
Australian Diatomite Mining Pty Ltd	100	100
Friends Exploration Pty Ltd	100	-

All entities were incorporated in Australia. Australian Diatomite Mining Pty Ltd (ADM) and Friends Exploration Pty Ltd (FEX) are wholly owned subsidiaries of Supersorb Minerals NL (Supersorb). The Consolidated Entity has an indirect interest in both ADM and FEX by virtue of its interest in Supersorb Minerals NL.

During the year Supersorb Minerals NL acquired the interest in Friends Exploration Pty Ltd, refer to note 5.

	<b>Consolidated</b>	
	<b>2007</b>	2006
	\$	\$
<b>(b) Contribution to the consolidated operating profit/(loss)</b>		
Supersorb Environmental NL	(250,522)	(4,821,029)
Supersorb Minerals NL	(3,603,710)	612,012
Australian Diatomite Mining Pty Ltd	-	-
Friends Exploration Pty Ltd	-	-
	<b>(3,854,232)</b>	<b>(4,209,017)</b>

**NOTE 17 SEGMENTAL REPORTING**

During the financial year the Group was involved with two operational segments; mining and exploration, and mineral processing and marketing. Following a change in strategic direction the Group has disposed of all significant assets relating to the mineral processing and marketing operations, the financial information in relation to this segment is disclosed within note 4, discontinued operations.

On a geographical basis the Group operated within Australia throughout the financial period, 100% of revenue, all operating losses and assets are derived from these operations.

**NOTE 18 EXPENDITURE COMMITMENTS**

In order to maintain current rights to tenure of its mineral tenement leases, the Company and its Controlled Entities will be required to outlay amounts in respect of rent and to meet minimum expenditure requirements of the Department of Industry and Resources (WA) and similarly to the relevant Government Departments in NSW and Queensland. These obligations may be varied from time to time, are subject to approval and are expected to be fulfilled in the normal course of operations by the relevant Company.

The following minimal expenditure is per annum until expiry of the tenure

	<b>30 June</b>	30 June
	<b>2007</b>	2006
	\$	\$
Minimal expenditure to retain rights to tenure	114,000	114,000
Rent on tenement sites held	2,460	2,460
	<b>116,460</b>	<b>116,460</b>

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**NOTE 19 NOTES TO STATEMENT OF CASH FLOWS**

(a)	Reconciliation of cash and cash equivalents	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
For the purpose of the statement of cash flows, cash includes cash on hand and in at call deposits with banks or financial institutions and net of bank overdrafts.					
Cash balances comprise:					
	- Cash at bank	<b>374,292</b>	857,190	<b>13,301</b>	124,034
<hr/>					
(b)	Reconciliation of cash flows from operating activities with loss after income tax:				
	Profit/(loss) from ordinary activities after income tax	<b>(3,854,232)</b>	(4,209,017)	<b>(250,522)</b>	(4,821,029)
	Non cash flows in operating loss:				
	- Amortisation	<b>1,720</b>	404,415	-	-
	- Depreciation	<b>106,253</b>	227,790	-	1,230
	- Interest on loans not paid	-	44,390	-	44,390
	- Interest on loans not received	-	(314,504)	-	-
	- (Increase)/decrease in inventories	<b>168,959</b>	(166,989)	-	-
	- (Increase)/decrease in prepayments	-	3,550	-	-
	- Increase/(decrease) in payables	<b>1,917,322</b>	(612,247)	<b>231,723</b>	(69,380)
	- (Increase)/decrease in debtors	<b>178,396</b>	5,166,846	-	4,764,828
	- Increase/(decrease) in leave liabilities	<b>(9,771)</b>	(17,389)	<b>2,152</b>	-
	- Increase/(decrease) in interest bearing liabilities	<b>(16,810)</b>	-	-	-
	- Fair value adjustment	<b>403,913</b>	-	-	-
	Add / (less) items classified as investing activities:				
	- (Profit)/loss on disposal of non current assets	-	(1,400,588)	-	(114,250)
	Cash flow from operations	<b>(1,104,249)</b>	(873,743)	<b>(16,647)</b>	(194,211)

**NOTE 20 KEY MANAGEMENT PERSONNEL**

The Key Management Personnel of the consolidated entity are:

*Directors*

Mr B Souness  
Mr M Shuttleworth  
Mr A Parry

**a) Remuneration report**

**Remuneration policy**

The Board of Directors is responsible for remuneration policies and the packages applicable to the Key Management Personnel of the Company. The broad remuneration policy is to ensure that packages offered properly reflect a person's duties and responsibilities and that remuneration is competitive and attracts, retains, and motivates people of the highest quality.

**SUPERSORB ENVIRONMENTAL NL**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 30th June 2007

**NOTE 20 KEY MANAGEMENT PERSONNEL (continued)**

The policy of the consolidated entity is to offer competitive salary packages which properly incentivise Key Management Personnel and are designed to reward and motivate. Non executive Directors receive fees agreed on an annual basis by the Board.

At the date of this report the Company had not entered into any packages with Key Management Personnel which include performance based components, nor is there any provision for the issuing of securities to Directors.

**Details of remuneration for key management personnel**

The remuneration of each Key Management Personnel is set out in the following table.

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced Directors and senior executives. The Board of Directors obtains independent advice when appropriate when reviewing remuneration packages.

During the year there were no other personnel which were employed by the Company for whom disclosure is required.

Remuneration of directors		Short-term		Post employment	Share based	Total
		Director Fees	Salary / Consulting fees	Superannuation	payments Equity Compensation	
<b>Mr Bradley W Sounness</b>	<b>2007</b>	<b>20,000</b>	-	-	-	<b>20,000</b>
(Chairman - since December 2002)	2006	20,000	49,791	4,481	-	74,272
<b>Mr Martin J Shuttleworth</b>	<b>2007</b>	<b>20,000</b>	<b>50,000</b>	-	-	<b>70,000</b>
(Director – since December 2002)	2006	20,000	81,789	-	-	101,789
<b>Mr Anthony N Parry</b>	<b>2007</b>	<b>20,000</b>	<b>169,709</b>	-	-	<b>189,709</b>
(Director - since May 1994)	2006	20,000	137,597	-	-	157,597
Total All Directors	<b>2007</b>	<b>60,000</b>	<b>219,709</b>	-	-	<b>279,709</b>
	2006	60,000	269,177	4,481	-	333,658

**Service agreements**

There are no service agreements with any of the Company's Directors.

**Share based compensation**

There is currently no provision in policies of the consolidated entity for the provision of share based compensation to Key Management Personnel. The interest of Key Management Personnel in shares and options is set out below.

**c) interests in Shares and Options**

The particulars of Key Management Personnel interests in shares and options of the Company at the date of this Report are set out below.

Number of Ordinary shares	Held at 1 July 2006	Movement during the year	Held at 30 June 2007
Directors			
Mr Bradley W Sounness	253,973,008	-	253,973,008
Mr Martin J Shuttleworth	56,000,000	-	56,000,000
Mr Anthony N Parry	3,066,763	-	3,066,763
	<u>313,039,771</u>	<u>-</u>	<u>313,039,771</u>
Number of Options	Held at 1 July 2006	Expiry during the year	Held at 30 June 2007
Directors			
Mr Anthony N Parry	1,500,000	(1,500,000)	-
	<u>1,500,000</u>	<u>(1,500,000)</u>	<u>-</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 30th June 2007

**NOTE 20 KEY MANAGEMENT PERSONNEL (continued)**

**d) Loans and other transactions with Key Management Personnel**

	Balance at 1 July 2006	Interest Accrued	Repaid	Balance at 30 June 2007
Loans from Key Management Personnel	278,181	22,254	-	300,435

The Company has made no loans to any individuals.

Loans monies outstanding accrue interest at a rate of 8.0%

**d) Other transactions with the company**

Some Key Management Personnel hold positions within other entities which cause them to have control or exert significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company or its subsidiaries during the reporting period. In each instance normal commercial terms and conditions applied. Terms and conditions were no more favourable than those available, or which might reasonably be expected to be available, for a similar transaction to unrelated parties on an arm's length basis.

The aggregate amounts recognised during the year ending 30 June 2007 relating to Key Management Personnel and their personally related entities totalled an expense of \$314,709 (2006: \$447,192). Details of the transactions are set out in the table at note 20 (a).

**NOTE 21 RELATED PARTY TRANSACTION**

Related party transactions occurring during and subsequent to the year end are disclosed within the Key Management Personnel note 20 and the Subsequent Events note 23.

**NOTE 22 EARNINGS PER SHARE**

	<b>Consolidated</b>	
	2007	2006
(a) Basic earnings/(loss) per share (cents per share)	(0.005)	(0.006)
(b) Diluted earnings/(loss) per share (cents per share)	(0.005)	(0.006)
(c) Weighted average number of ordinary shares on issue during the year used in calculation of basic earnings per share	721,663,870	667,539,082
Potentially dilutive shares in respect of options on issue	-	1,500,000
(d) Weighted average number of potentially ordinary shares on issue during the year used in calculation of diluted earnings per share	721,663,870	669,039,082

Diluted earnings per share are calculated after classifying all options on issue as potential ordinary shares. There have been no conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of these Financial Statements.

**SUPERSORB ENVIRONMENTAL NL**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 30th June 2007

**NOTE 23 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

A number of significant corporate events have occurred since that reporting period:

- On 22 February 2008, the Directors Company appointed Kim Strickland, Christopher Williamson and David Hurt of Sims Partners Chartered Accountants (now WA Insolvency Solutions Pty Ltd) as Administrators of the Company (Administrator).
- At a meeting on 13 June 2008, the creditors resolved that the Company enter into a Deed of Company Arrangement (DOCA), which was executed on 4 July 2008.  
On 4 July 2008:
  - (a) the Company and Kimberley Andrew Strickland, Christopher Michael Williamson and David Ashley Norman Hurt (Trustee) executed the Creditor's Trust Deed, under which the:
    - (i) Trustee became the Trustee of the Creditor's Trust;
    - (ii) Company was required to reconstruct and recapitalise the Company by no later than 4 July 2009; and
    - (iii) Company was required, and covenanted, to transfer all assets and liabilities, with the exception of the Bullfinch Royalty Deed and pay the Settlement Sum of \$1,066,333 to the Trustee by no later than 4 July 2009;
  - (b) the Company and the Trustee executed a Deed of Charge, under which the:
    - (i) Trustee is entitled to register a second ranking fixed and floating charge against the Company to secure the obligations of the Company referred to in Section 2.1(a)(iii) above; and
    - (ii) Quangi Pty Ltd is entitled to retain its first ranking fixed and floating charge (ASIC charge no. 900156) to secure the debts owed to Quangi Pty Ltd;
  - (c) the Company and Supersorb Minerals NL executed a Share Sale Agreement under which Supersorb Minerals will transfer all right, title and interests in all of the issued capital of Friends Exploration Pty Ltd to the Company in consideration for the payment of \$200,000;
  - (d) the DOCA was terminated on the basis that it had been fully effectuated;
  - (e) the Administrators resigned as administrators of the Company; and
  - (f) control of the Company reverted to the Directors.
- On 21 August 2008, the Company, and the Trustee entered into a Reconstruction Deed pursuant to which Trident Capital agreed to facilitate the recapitalisation of the Company referred to below.

Principal Features of the Recapitalisation Proposal;

- (a) **Consolidation of Capital:** Consolidation of the existing issued capital of the Company on a 1 for 30 basis from 721,663,860 shares on issue to 24,055,462 post consolidation shares on issue.
- (b) **Issue of New Shares and New Options to Trident Capital or its nominees:** The issue of 80,000,000 New Shares (in consideration of Trident Capital paying \$400,000 to the Company) and 60,000,000 New Options in the Company, exercisable at 1 cent each at any time on or before 31 December 2012, to Trident Capital or its nominees under the Prospectus to be issued by the Company.
- (c) **Prospectus Issue:** The issue of up to 240,000,000 New Shares in the Company at a price of not less than 1 cent each under a Prospectus to raise not less than \$2.4 million.
- (d) **Issue of New Shares to Major Shareholders:** The Company will issue 50,000,000 New Shares for nil consideration by way of a priority offer to the Major Shareholders; being Quangi Pty Ltd and Achilles Pty Ltd.
- (e) **Board Changes:** The board of Directors of the Company will change as soon as practicable after the date of the Prospectus being fully subscribed at which time the proposed Directors being Mr Keith John, Mr Joe Graziano and Mr Adam Sierakowski will be appointed and such of the Existing Directors as Trident Capital requests will resign.

**SUPERSORB ENVIRONMENTAL NL**  
**ABN 29 060 352 990**

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 30<sup>th</sup> June 2007

**NOTE 23 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (CONTINUED)**

- (f) **Company Type and New Constitution:** The Company will convert from a public no liability company to a public company limited by shares and adopt a new Constitution
- (g) **Company Name:** The Company will change its name to "Red Dragon Resources Limited
- (h) **Acquisition of Friends Exploration Pty Ltd:** The Company will acquire all of the issued capital of Friends Exploration Pty Ltd in consideration for the payment of \$200,000 to Supersorb Minerals NL, this is reflected as a liability as at 30 June 2007.

In consideration of the above arrangement, Supersorb Environmental NL are not to pursue recovery of the intercompany loan previously granted to Supersorb Minerals NL. Full provision for non recovery of the loan was effected within the year ended 30 June 2006.

- The Directors; Mr M Shuttleworth and Mr B Souness have entered in to a deed of guarantee for the benefit of Supersorb Minerals in the event that the ADE loan is not settled. The guaranteed obligation for which the Directors are jointly and severally liable is \$200,000.
- **The change in strategy has been supported by the following post period end activities:**
  - iv. sold its zeolite mining and processing operations at Willows, Queensland for a total consideration of \$470,000 excluding GST;
  - v. sold its freehold land at Duaringa Queensland; for a total consideration of \$385,000 including GST and,
  - vi. sold its RiverSafe retail garden products business for a total consideration of \$125,000 excluding GST.

**NOTE 24 CONTINGENT ASSETS AND LIABILITIES**

On 18 March 1999 Supersorb Environmental NL entered in to an agreement with Polaris Metals NL, the agreement was in connection to the performance of a Joint Venture known as Bullfinch North.

The terms of the agreement are for payment of a \$250,000 royalty payment by Polaris to Supersorb upon the commissioning of a commercial operation that proposes to mine minerals originating from the Tenement and a royalty per tonne of gold or nickel ore mined and treated from within the Tenement, to which Supersorb is the beneficial owner.

Given the receipt of future royalties cannot be determined with any certainty the Directors have not reflected any value for this agreement within the balance sheet as at 31 December 2006. Until such time as this royalty becomes unconditionally payable this method of recognition will continue.

The company has no contingent liabilities.

**NOTE 25 COMPANY DETAILS**

The registered office is 30 Graham Street, Albany, WA 6330.

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF SUPERSORB ENVIRONMENTAL NL

#### Report on the Financial Report

We have audited the accompanying financial report of Supersorb Environmental NL, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Supersorb Environmental NL and of the consolidated entity. The consolidated entity comprises the entity and the entities it controlled at the year's end or from time to time during the financial year.

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

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

#### *Auditor's Responsibility*

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

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

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

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### *Independence*

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

### *Basis for Adverse Auditor's Opinion*

The Directors have prepared the financial report on the going concern basis as described in Note 1, and state in the Directors' declaration that in their opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

Note 1 discusses a number of matters that may affect the ability of the company to continue as a going concern. In that note, the directors state their opinion that the going concern basis used in the preparation of the financial report is appropriate. In our opinion however, it is highly improbable that the company will be able to continue as a going concern. In arriving at our opinion we have considered the following:

1. The company went into administration on 22 February 2008 and on 4 July 2008 Supersorb Environmental NL and Supersorb Minerals NL entered into individual Deeds of Company Arrangements ("DOCA's"). Subsequent to this, on 21 August 2008 Supersorb Environmental NL entered into a reconstruction deed to reconstruct and recapitalise the company;
2. As at 30 June 2008, the company had a net asset deficiency position of \$920,640. The Company is currently not trading and does not have any cash or revenue generating assets on hand at 30 June 2008; and
3. At the date of signature of the financial report there is insufficient evidence to support the ability of the company to raise sufficient capital to commence exploration activities.

These events indicate that it is highly improbable that the entity will continue as a going concern and therefore be able to realise its assets and discharge its liabilities in the normal course of business. The financial report (and notes thereto) does not disclose this fact.

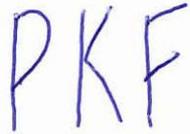
A going concern basis presumes that the company will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the company be unable to continue as a going concern and meet its debts as and when they fall due.

### *Adverse Auditor's Opinion*

In our opinion, for the reasons set out in the qualification paragraph above, the financial report of Supersorb Environmental NL is not in accordance with the *Corporations Act 2001*, and does not:

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



**PKF**  
Chartered Accountants



**Conley Manifis**  
Partner

Dated at Perth, Western Australia on the 8<sup>th</sup> day of December 2008

## DIRECTORS' DECLARATION

---

The directors of Supersorb Environmental NL declare that:

- (a) in the directors' opinion the financial statements and notes on pages 11 to 40, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2007 and of their performance, for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

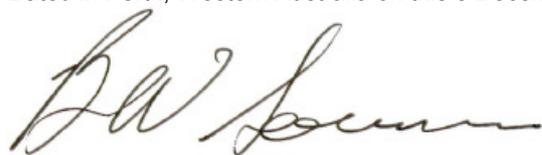
The Directors have been given the declaration by the Managing Director required by section 295A of the Corporations Act 2001 for the financial year ended 30 June 2007.

### On behalf of the Directors



Martin Shuttleworth  
Director  
Perth

Dated in Perth, Western Australia on this 8 December 2008



B Sounness  
Director

Dated in Perth, Western Australia on this 8 December 2008