

SUPERSORB ENVIRONMENTAL NL

(ABN 29 060 352 990)

Half Year Report

31 December 2007

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DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half year ended 31 December 2007.

Directors

The names of directors who held office during or since the end of the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Bradley Wade Sounness	Non-Executive Chairman, appointed 23 December 2002
Martin Shuttleworth	Executive Director, appointed 23 December 2002
Anthony Nigel Parry	Executive Director, appointed 9 September 2003 and resigned 25 March 2008

Review of Operations

During the half year ended 31 December 2007 the company continued to hold its interest 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 33km² 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 22km² (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.

Review of Operations Continued:

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.

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 half year ended 31 December 2007 of \$159,415 (December 2006, restated for prior year error generated a loss of \$3,100,087).

The current period losses are mainly attributable to the expenditure commitments in relation to exploration projects and the successful retention of the tenure rights on the tenement sites as detailed above in review of operations.

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 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;

Subsequent events continued

- (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, 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 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.
- (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 31 December 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.

Auditor's Declaration

Section 307C of the Corporations Act 2001 requires our auditors, PKF Chartered Accountants to provide the directors of the company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 6 and forms part of this directors' report for the half-year ended 31 December 2007.

This report is signed in accordance with a resolution of the Board of Directors.

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

M Shuttleworth

Director

Dated in 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 half-year ended 31 December 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.

A handwritten signature in blue ink that reads 'PKF'.

PKF
Chartered Accountants

A handwritten signature in blue ink that reads 'C Manifis'.

Conley Manifis
Partner

Dated at Perth, Western Australia on the 8th day of December 2008

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**CONDENSED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

Consolidated

	Notes	31 Dec 2007 \$	31 Dec 2006 \$
Revenue		-	-
Cost of goods sold		-	-
Gross Profit/(Loss)		-	-
Other income		61,408	67,809
Selling and promotional expense		-	-
Administration expense		(127,969)	(170,672)
Depreciation	2 (a)	(3,455)	(6,750)
Exploration costs write-off	5	(36,025)	(861,910)
Bad debts		-	-
Employee benefit expenses		-	-
Net Finance expenses		-	(1,356,086)
Profit / Loss before income tax expense		(106,042)	(2,327,609)
Income tax expense		-	-
Profit/loss after tax but before profit and loss of discontinued operation and loss on discontinued operation.		(106,042)	(2,327,609)
Loss from discontinued operation after income tax	3	(53,373)	(772,474)
Net loss for the period		(159,415)	(3,100,087)
Basic / Diluted earnings/(loss) per share (cents per share)		(0.0002)	(0.004)
Basic / Diluted earnings/(loss) per share (cents per share) from continuing operations		(0.0002)	(0.004)

The accompanying notes form part of these financial statements

**CONDENSED BALANCE SHEET
AS AT 31 DECEMBER 2007**

	Notes	Consolidated	
		31 Dec 2007 \$	30 June 2007 \$
Assets			
Current Assets			
Cash and cash equivalents		55,327	374,292
Trade and other receivables		34,361	125,479
Other current assets		-	14,900
Assets for disposal group held for sale	3	-	49,218
Total Current Assets		89,688	563,889
Non-Current Assets			
Property, plant and equipment		17,047	27,252
Exploration expenditure	5	200,000	200,000
Total Non-Current Assets		217,047	227,252
Total Assets		306,735	791,141
Current Liabilities			
Trade and other payables		3,731,035	4,056,403
Provision for employee benefits		-	13,321
Interest bearing liabilities		6,348	12,195
Total Current Liabilities		3,737,383	4,081,919
Non-Current Liabilities			
Interest bearing liabilities		538,427	518,882
Total Non-Current Liabilities		538,427	518,882
Total Liabilities		4,275,810	4,600,801
Net Liabilities		(3,969,075)	(3,809,660)
Equity			
Contributed equity	6	18,336,409	18,336,409
Accumulated Losses		(22,305,484)	(22,146,069)
NET CAPITAL DEFICIENCY		(3,969,075)	(3,809,660)

The accompanying notes form part of these financial statements

**CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

		CONSOLIDATED		
		Issued	Accumulated	Total
Note		Capital	Losses	Equity
		\$	\$	\$
	Balance at 1 July 2006	18,065,788	(18,291,837)	(226,049)
	Shares issued	270,621	-	270,621
	Loss attributable to members of the parent entity	-	(3,100,087)	(3,100,087)
	Balance at 31 December 2006	18,336,409	(21,391,924)	(3,055,515)
	Balance at 1 July 2007	18,336,409	(22,146,069)	(3,809,660)
	Loss attributable to members of the parent entity	-	(159,415)	(159,415)
	Balance at 31 December 2007	18,336,409	(22,305,484)	(3,969,075)

The accompanying notes form part of these financial statements

**CONDENSED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	Consolidated	
Note	31 Dec 2007	31 Dec 2006
	\$	\$
	Inflows/(Outflows)	
Cash flows from operating activities		
Receipts from customers	149,670	580,162
Payments to suppliers and employees	(318,038)	(493,566)
Payment for exploration and evaluation of tenements	(36,025)	(331,175)
Interest received	46,731	9,586
Interest paid	-	(56,375)
Net cash provided by /(used in) operating activities	(157,662)	(291,368)
Cash flows from investing activities		
Receipt from sale of plant and equipment	125,000	71,899
Payments for purchase of investments	(300,000)	(254,000)
Net cash provided by/(used in) investing activities	(175,000)	(182,101)
Cash flows from financing activities		
Proceeds from borrowings	19,923	-
Other loans	(2,750)	(103,057)
Hire purchase repayments	(3,476)	(13,713)
Net cash provided by /(used in) financing activities	13,697	(116,770)
Net increase/(decrease) in cash held	(318,965)	(590,239)
Cash at 1 July 2007	374,292	857,190
Cash at 31 December 2007	55,327	266,951

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

The half-year report has been prepared on a historical cost basis, except available-for-sale financial assets which are measured at fair value. Cost is based on the fair value of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2007 and any public announcements made by Supersorb Environmental NL in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the consolidated entity as in the full financial report.

For the purpose of preparing the half-year report, the half-year has been treated as a discrete reporting period.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2007 annual financial report for the financial year ended 30 June 2007.

In the half-year ended 31 December 2007, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2007.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies

(b) Going concern

At 30 June 2008, 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007

(b) Going concern

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.

(c) Principles of consolidation

The consolidated financial statements comprise the financial statements of Supersorb Environmental NL and its subsidiaries as at 31st of December 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.

(d) Exploration and Evaluation

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007

NOTE 2: LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

(a) Charging as expenses	Consolidated	
	31 Dec 2007	31 Dec 2006
	\$	\$
- amortisation	-	1,376
-depreciation	-	38,557
-fair value adjustment	-	413,913
Total in relation to discontinued operations	-	453,846
- depreciation	3,455	6,750
Total expense	3,455	460,596

The prior period fair value adjustment was made in recognition of the impairment of value on the Zeolite plant and equipment which is subject to post year end sale and recognised as part of the discontinued operations in note 3.

NOTE 3: DISCONTINUED OPERATIONS

During the period the Company sold its RiverSafe retail garden products and related inventory for a total consideration of \$125,000. At 30 June 2007 the total carrying value of the fixed assets and Inventory sold was \$49,218, giving rise to a profit on sale of \$75,782.

Financial performance for the period of operations held for sale

	Notes	31 Dec 2007	31 Dec 2006
		\$	\$
Revenue		11,024	322,829
Cost of sales		(13,722)	(298,302)
Gross profit / (loss)		(2,698)	24,527
Selling and promotional expenses		(3,007)	(53,746)
Administration expenses		(128,243)	(148,181)
Depreciation and amortisation	2(a)	-	(453,846)
Bad debts expense / (write-back)		4,794	(69,062)
Employee benefit expenses		-	(72,170)
Loss from discontinued operations		(129,154)	(772,474)
Gain on sale of discontinued operation		75,782	-
Net loss on sale		(53,372)	(772,474)
Assets held for sale operations			
Trade and other receivables		-	90,824
Property, plant and equipment		-	557,945
Inventory		-	243,816
		-	892,585

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2007
NOTE 3: DISCONTINUED OPERATIONS (Continued)**

	Notes	31 Dec 2007	31 Dec 2006
		\$	\$
Net cash flows of discontinued operations			
Operating activities		(168,368)	86,956
Investing activities		125,000	-
Net cash inflow		(43,368)	86,596

NOTE 4: BUSINESS COMBINATION

On 24 July 2006, Supersorb Minerals NL acquired 100% of the voting shares in Friends Exploration Pty Ltd based in Australia involved in mining exploration activities.

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

	<i>Consolidated Recognised on acquisition 31 Dec 2006 \$</i>
Exploration Assets	944,621
Total Assets	944,621
Total Liabilities	-
Cost of the combination:	
Shares issued, at fair value	270,621
Cash paid to Vendors	674,000
Total cost of combination	944,621
Goodwill arising on acquisition	-

The cash paid to vendors was settled by instalments, with the final payment of \$300,000 occurring during the period ended 31 December 2007.

NOTE 5: EXPLORATION EXPENDITURE

	Consolidated	
	31 Dec 2007	30 June 2007
	\$	\$
Exploration expenses capitalised	236,025	1,164,459
Impairment	(36,025)	(964,459)
	200,000	200,000

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007

NOTE 6: ISSUED CAPITAL

	Consolidated	
	31 December 2007 \$	30 June 2007 \$
a. Issued share capital		
<i>Ordinary shares</i>		
721,663,870 Issued and fully paid shares (30 June 2007 – 667,539,082)	18,336,389	18,065,768
54,124,788 fully paid ordinary shares (b)	-	270,621
2,000,000 part paid ordinary shares issued at 3.68 cents per share and paid to 0.001 cents	20	20
	18,336,409	18,336,409

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; refer to Note 4 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 the balance sheet date there were no options on issue under the Employee Share Option Plan.

NOTE 7: DIVIDENDS

No dividends were paid or declared during the period.

NOTE 8: SEGMENTAL REPORTING

At the beginning of this financial period the Group sold its Riversafe Garden product line, which was its final involvement with operations other than mining and exploration. As such the financial information reflected within note 4, discontinued operations presents the segmental information in relation to the activities previously undertaken in relation to its mineral processing and marketing operations.

As previously disclosed the Group is now focused on its principal activity and one segmental operation of mining and exploration.

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

NOTE 9: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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 2007. Until such time as this royalty becomes unconditionally payable this method of recognition will continue.

The company has no contingent liabilities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007

NOTE 10: 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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007

NOTE 10: SUBSEQUENT EVENTS (continued)

- (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.
- (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 31 December 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.



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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SUPERSORB ENVIRONMENTAL NL

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Supersorb Environmental NL, which comprises the condensed balance sheet as at 31 December 2007 and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at 31 December 2007 or from time to time during the half year ended on that date.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year 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 a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Supersorb Environmental NL, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independence

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

Basis for Adverse Auditor's Conclusion

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 conclusion however, it is highly improbable that the company will be able to continue as a going concern. In arriving at our conclusion 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 Conclusion

Based on our review, which is not an audit, for the reasons set out in the qualification paragraph above, the half-year financial report of Supersorb Environmental NL is not in accordance with the *Corporations Act 2001* including:



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- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

A handwritten signature of 'PKF' in blue ink.

PKF
Chartered Accountants

A handwritten signature of 'C Manifis' in blue ink.

Conley Manifis
Partner

Dated at Perth, Western Australia on the 8th day of December 2008

DIRECTORS'S DECLARATION

The directors of Supersorb Environmental NL declare that:

- (a) the financial statements and notes of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:
 - i. give a true and fair view of the financial position as at the 31 December 2007 and the performance for the half-year ended on that date of the Consolidated Entity; and
 - ii. comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (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.

This report is signed in accordance with a resolution of the Board of Directors.

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

M Shuttleworth

Director

Perth

Dated in 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