ASX listing rule 4.3A

APPENDIX 4E

ELECTROMETALS TECHNOLOGIES LIMITED
ABN 25 000 751 093

Preliminary final report
For the year ended 31 December 2008

Results for announcement to the market

				$A'000
Revenues from ordinary activities	down	32%	to	6,722
Loss from ordinary activities after tax attributable to members	N/A	N/A	to	(2,296)
Loss for the period attributable to members	N/A	N/A	to	(2,296)

Dividends (distributions)	Amount per security	Franked amount per security
Interim dividend	NIL¢	NIL¢
Previous corresponding period	NIL¢	NIL¢

Record date for determining entitlements to the dividend	N/A

NTA backing	Current Period	Previous Corresponding Period
Net tangible asset backing per ordinary security	2.73c	4.18c

Statement whether report is based on audited accounts
This report is based on accounts that are in the process of being audited. It is not expected the audit of the accounts will be subject to dispute or qualification.

Electrometals Technologies Limited

R E Keevers
Chairman and CEO
Gold Coast. 27 February 2009

Commentary on results for the 2008 year

The financial performance for 2008 includes for the first time the consolidation of the Kurion Technologies Ltd business from 19 February 2008. Kurion recorded a manageable operating loss for 2008, and the financial figures presented here do not assign any of this loss to the Kurion 49% minority shareholder. Electrometals has the right to purchase the other 49% of Kurion for 5 years from the first acquisition date, 19 February 2008.

Sales and other revenue	Down 22% from $9,139,568 to $5,863,760.
Results	Consolidated loss of $2,296,452.
Group order book at 31 December 2008	$713,000
Cash on hand at year-end	$2,998,002

The loss recorded in 2008 reflected a substantial downturn in our business, which was first evident in the second half of 2007. At 31 December 2008, our order book was insufficient to allow the group to trade profitably in 2009. However, while business remains slow, we do have orders in prospect.

We have repositioned our marketing to concentrate more on industrial waste recycling opportunities, while the mining and metal refining businesses are operating with severely reduced metal prices. Consequently, a number of new sale or DBOO opportunities are now under consideration.

The Electrometals group has reduced operating costs and has budgeted to exit 2009 with cash resources similar to our position at the end of 2008. This has required a reduction in our workforce.

R E Keevers
Chairman and CEO

ELECTROMETALS TECHNOLOGIES LIMITED

ABN 25-000-751-093

FINANCIAL STATEMENTS

YEAR ENDED

31 DECEMBER 2008

Contents

INCOME STATEMENT

for the year ended 31 December 2008

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Plant sales		5,863,760	9,139,568	2,814,771	9,139,568
Spare parts sales		706,398	487,762	706,398	487,762
Laboratory and engineering fees		138,354	223,368	136,225	140,242
Royalties		13,305	23,340	13,305	23,340
Total sales		6,721,817	9,874,038	3,670,699	9,790,912
Cost of sales		(5,105,825)	(6,816,502)	(2,918,368)	(6,750,756)
Gross profit		1,615,992	3,057,536	752,331	3,040,156
Other income					
Interest		341,832	452,689	339,590	452,689
Discounts		-	445	-	445
Net foreign exchange gain		-	45,063	-	11,393
Total income		1,957,824	3,555,733	1,091,921	3,504,683
Expenses					
Marketing expenses		(91,495)	(66,830)	(91,495)	(66,830)
Occupancy expenses		(369,616)	(262,893)	(273,647)	(262,893)
Administrative expenses		(3,499,218)	(1,930,202)	(1,927,356)	(1,493,327)
Other expenses	6	(325,168)	(661,958)	(778,015)	(1,178,958)
Finance costs	6	(6,375)	-	-	-
Profit / (loss) before income tax		(2,334,048)	633,850	(1,978,592)	502,675
Income tax benefit / (expense)	7	37,596	-	-	-
Net profit / (loss) for the year		(2,296,452)	633,850	(1,978,592)	502,675
Attributable to minority interests		-	-	-	-
		(cents)	**(cents)**		
Basic and diluted earnings per share	9	(1.13)	0.33		

The above income statement should be read in conjunction with the accompanying notes.

BALANCE SHEET

As at 31 December 2008

		Consolidated		Parent	
		2008	2007	**2008**	2007
	Note	**$**	$	**$**	$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	10	2,998,002	7,650,548	2,944,477	7,654,141
Trade and other receivables	11	1,670,674	1,088,460	1,794,827	1,035,505
Inventories	12	1,183,936	777,333	1,120,328	777,333
Prepayments		78,540	64,048	53,890	62,396
TOTAL CURRENT ASSETS		5,931,152	9,580,389	5,913,522	9,529,375
NON-CURRENT ASSETS					
Receivables	13	27,409	28,409	27,409	28,409
Investments	14	104	-	485,152	-
Plant & equipment	15	1,082,736	694,137	986,634	659,917
Goodwill and other intangible assets	16	645,832	-	-	-
TOTAL NON-CURRENT ASSETS		1,756,081	722,546	1,499,195	688,326
TOTAL ASSETS		7,687,233	10,302,935	7,412,717	10,217,701
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	17	1,193,161	1,532,300	656,796	1,525,354
Interest-bearing liabilities	21	39,650	-	-	-
Deferred income	18	-	76,250	-	76,250
Provisions	19	165,325	126,049	148,207	115,282
TOTAL CURRENT LIABILITIES		1,398,136	1,734,599	805,003	1,716,886
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	21	31,838	-	-	-
Provisions	20	34,966	24,680	34,966	24,680
TOTAL NON-CURRENT LIABILITIES		66,804	24,680	34,966	24,680
TOTAL LIABILITIES		1,464,940	1,759,279	839,969	1,741,566
NET ASSETS		6,222,293	8,543,656	6,572,748	8,476,135
EQUITY					
Issued capital	24	33,320,788	33,320,788	33,320,788	33,320,788
Reserves		(25,544)	50,455	164,497	89,292
Accumulated losses	25	(27,124,039)	(24,827,587)	(26,912,537)	(24,933,945)
TOTAL EQUITY		6,222,293	8,543,656	6,572,748	8,476,135

The above balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

CONSOLIDATED

	Ordinary shares	Preference shares	Foreign currency reserve	Equity benefits reserve	Minority Interests reserve	Accumulated losses	Total
	$	**$**	**$**	**$**	**$**	**$**	**$**
At 1 January 2007	27,982,929	133,333	5,273	58,052	-	(25,461,437)	2,718,150
Profit / (loss) for the period	-	-	-	-	-	633,850	633,850
Issue of share capital	5,691,789	-	-	-	-	-	5,691,789
Movements in reserves	-	-	(44,110)	31,240	-	-	(12,870)
Share issue expenses	(487,263)	-	-	-	-	-	(487,263)
At 31 December 2007	33,187,455	133,333	(38,837)	89,292	-	(24,827,587)	8,543,656
Profit / (loss) for the period	-	-	-	-	-	(2,296,452)	(2,296,452)
Issue of share capital	-	-	-	-	-	-	-
Movements in reserves	-	-	54,263	75,205	-	-	129,468
Minority interest on acquisition	-	-	-	-	(154,379)	-	(154,379)
Share issue expenses	-	-	-	-	-	-	-
At 31 December 2008	33,187,455	133,333	15,426	164,497	(154,379)	(27,124,039)	6,222,293

PARENT

	Ordinary shares	Preference shares	Equity benefits reserve	Accumulated losses	Total
	$	**$**	**$**	**$**	**$**
At 1 January 2007	27,982,929	133,333	58,052	(25,436,620)	2,737,694
Profit / (loss) for the period	-	-	-	502,675	502,675
Issue of share capital	5,691,789	-	-	-	5,691,789
Additions to reserves	-	-	31,240	-	31,240
Share issue expenses	(487,263)	-	-	-	(487,263)
At 31 December 2007	33,187,455	133,333	89,292	(24,933,945)	8,476,135
Profit / (loss) for the period	-	-	-	(1,978,592)	(1,978,592)
Issue of share capital	-	-	-	-	-
Additions to reserves	-	-	75,205	-	75,205
Share issue expenses	-	-	-	-	-
At 31 December 2008	33,187,455	133,333	164,497	(26,912,537)	6,572,748

The above statement of changes in equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

for the year ended 31 December 2008

		Consolidated		Parent	
		2008	2007	**2008**	2007
		$	$	**$**	$
Cash flows from operating activities					
Receipts from customers (including GST)		6,380,532	7,692,092	3,581,493	7,655,071
Payments to suppliers and employees (including GST)		(10,394,407)	(9,227,897)	(6,610,438)	(8,694,020)
Management fees received		-	-	172,525	-
Interest and other costs of finance paid		(6,375)	-	-	-
Sundry other income		-	445	-	445
Tax refund received		-	63,063	-	63,063
Net operating cash inflow / (outflow)	26	(4,020,250)	(1,472,297)	(2,856,420)	(975,441)
Cash flows from investing activities					
Interest received		354,699	451,753	365,599	451,753
Loan repaid		78,452	-	-	-
Investment in Kurion Technologies, net of cash		(537,185)	-	(485,152)	-
Investment in R&D – pilot plant		-	(1,242)	-	(1,242)
Payment for plant and equipment		(539,153)	(330,651)	(508,141)	(310,652)
Net investing cash inflow / (outflow)		(643,187)	119,860	(627,694)	139,859
Cash flows from financing activities					
Proceeds from issue of shares		-	5,345,930	-	5,345,930
Share issue costs		-	(155,343)	-	(155,343)
Loan funds repaid		(34,460)	-	-	-
Loans to subsidiaries		-	-	(1,225,550)	(517,314)
Net financing cash inflow / (outflow)		(34,460)	5,190,587	(1,225,550)	4,673,273
Net increase / (decrease) in cash held		(4,697,897)	3,838,150	(4,709,664)	3,837,691
Net foreign exchange differences		45,351	(1,298)	-	11,393
Cash at the beginning of the financial year		7,650,548	3,813,696	7,654,141	3,805,057
Cash at the end of the financial year	10	2,998,002	7,650,548	2,944,477	7,654,141

The above cash flow statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The financial report of Electrometals Technologies Limited (the company) for the year ended 31 December 2008 was authorised for issue in accordance with a resolution of directors on 27 February 2009.

Electrometals Technologies is a company limited by shares incorporated and domiciled in Australia, having its registered office and principal office at 28 Commercial Drive, Ashmore 4214, Queensland. The company's ordinary shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the group are described in note 5.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Table of contents

Basis of preparation
The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except for any derivatives and available for sale financial assets. The financial report is presented in Australian dollars.

(a) Compliance with IFRS
The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(b) New accounting standards and interpretations
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the group for the annual reporting period ending 31 December 2008. These are outlined in the table below:

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB Int. 13	Customer Loyalty Programmes	Deals with the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customers to buy their products or use their services.	1 July 2008	The group does not have any customer loyalty programs and, as such, this interpretation is not expected to have any impact on the group's financial report.	1 January 2009
AASB Int. 15	Agreements for the Construction of Real Estate	This interpretation proposes that when the real estate developer is providing construction services to the buyer's specifications, revenue can be recorded only as construction progresses. Otherwise, revenue should be recognised on completion of the relevant real estate unit.	1 January 2009	The group does not construct real estate and, as such, this interpretation is not expected to have any impact on the group's financial report.	1 January 2009
AASB Int. 16	Hedges of a Net Investment in a Foreign Operation	This interpretation proposes that the hedged risk in a hedge of a net investment in a foreign operation is the foreign currency risk arising between the functional currency of the net investment and the functional currency of any parent entity. This also applies to foreign operations in the form of joint ventures, associates or branches.	1 October 2008	The group does not hedge the risk of the net investment in its foreign operations and, as such, this interpretation is not expected to have any impact on the group's financial report.	1 January 2009
AASB Int. 17 and AASB 2008-13	Distributions of Non-cash Assets to Owners and consequential amendments to other Australian Accounting Standards	The Interpretation outlines how an entity should measure distributions of assets, other than cash, as a dividend to its owners acting in their capacity as owners. This applies to transactions commonly referred to as spin-offs, split offs or de-mergers and in-specie distributions.	1 July 2009	The group does not intend to make a distribution of assets and, as such, this interpretation is not expected to have any impact on the group's financial report.	1 January 2010
AASB 2007-9**	Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31	The amendments were issued as a result of the review of AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments* and largely relocates these industry-based standards to topic-based standards.	1 July 2008	This amendment relates only to government entities.	1 January 2009
AASB 1004 (revised)**	Contributions	This standard contains the original requirements on contributions from AASB 1004 as issued in July 2004, as well as the requirements on contributions from AASs 27, 29 and 31 substantively unamended (with some exceptions).	1 July 2008	This amendment relates only to non-profit entities.	1 January 2009
AASB Int. 1038 (Revised)**	Contributions by Owners Made to Wholly-Owned Public Sector Entities	This interpretation has been revised as a consequence of revised AASB 1004.	1 July 2008	This amendment relates only to public sector entities.	1 January 2009

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 1049**	Whole of Government and General Government Sector Financial Reporting	New standard to address differences between Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS).	1 July 2008	This amendment relates only to government entities.	1 January 2009
AASB 1050**	Administered Items	This standard contains the requirements for the disclosure of administered items from AAS 29, substantively unamended (with some exceptions).	1 July 2008	The group does not administer any items and, as such, this standard is not expected to have any impact on the group's financial report.	1 January 2009
AASB 1051**	Land Under Roads	This standard contains the specific transitional requirements relating to land under roads. It applies to general purpose financial reports of local governments, government departments and whole of governments and financial statements of GGSs.	1 July 2008	This amendment relates only to government entities.	1 January 2009
AASB 1052**	Disaggregated Disclosures	This standard contains the requirements for the reporting of disaggregated information by local governments from AASs 27 and 29, substantively unamended (with some exceptions).	1 July 2008	The group does not have any customer loyalty programs and, as such, this standard is not expected to have any impact on the group's financial report.	1 January 2009
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 *Segment Reporting*, which adopts a management reporting approach to segment reporting.	1 January 2009	The amendments are expected to only affect the presentation of the group's financial report and will not have a direct impact on the measurement and recognition of amounts under the current standard.	1 January 2009
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	The group does not have any qualifying assets and, as such, this standard is not expected to have any impact on the group's financial report.	1 January 2009
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	The amendments are expected to only affect the presentation of the group's financial report and will not have a direct impact on the measurement and recognition of amounts under the current standard.	1 January 2009

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The amendments are expected to only affect the presentation of the group's financial report and will not have a direct impact on the measurement and recognition of amounts under the current standard.	1 January 2009
AASB 2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation	The amendments provide a limited exception to the definition of a liability so as to allow an entity that issues puttable financial instruments with certain specified features, to classify those instruments as equity rather than financial liabilities.	1 January 2009	The group does not have any puttable financial instruments with the features specified and, as such, this standard is not expected to have any impact on the group's financial report.	1 January 2009
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The amendments are expected to only affect the presentation of the group's financial report and will not have a direct impact on the measurement and recognition of amounts under the current standard, unless business combinations occur in the future.	1 January 2010
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	1 July 2009	The amendments are expected to only affect the presentation of the group's financial report and will not have a direct impact on the measurement and recognition of amounts under the current standard.	1 January 2010
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	The amendments are expected to only affect the presentation of the group's financial report and will not have a direct impact on the measurement and recognition of amounts under the current standard.	1 January 2010

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009	The amendments are expected to only affect the presentation of the group's financial report and will not have a direct impact on the measurement and recognition of amounts under the current standard.	1 January 2010
AASB 2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	Refer to AASB 2008-5 above.	1 July 2009	The amendments are expected to only affect the presentation of the group's financial report and will not have a direct impact on the measurement and recognition of amounts under the current standard.	1 January 2010
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to AASB 127 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	The amendments are expected to only affect the presentation of the group's financial report and will not have a direct impact on the measurement and recognition of amounts under the current standard.	1 January 2009
AASB 2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items	The amendment to AASB 139 clarifies how the principles underlying hedge accounting should be applied when (i) a one-sided risk in a hedged item and (ii) inflation in a financial hedged item existed or was likely to exist.	1 July 2009	The group does not implement hedge accounting and, as such, this interpretation is not expected to have any impact on the group's financial report.	1 January 2010
AASB 2008-9**	Amendments to AASB 1049 for Consistency with AASB 101	Reflects the revised requirements of AASB 101 and AASB 2007-8 with clarification to apply the requirements in a government context.	1 January 2009	This amendment relates only to government entities.	1 January 2009

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2008-11	Amendments to Australian Accounting Standard – Business Combinations Among Not-for-Profit Entities [AASB 3]	The amendment requires not-for-profit entities to apply the revised AASB 3 except where there is common control.	1 July 2009	This amendment relates only to non-profit entities.	1 January 2010

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Electrometals Technologies Limited and its subsidiaries (as outlined in note 27) as at 31 December each year ("the group").

Subsidiaries are all those entities over which the group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity. The financial statements of 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 profits and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the group and cease to be consolidated from the date on which control is transferred out of the group. Investments in subsidiaries held by Electrometals Technologies Limited are accounted for at cost in the separate financial statements of the parent entity.

The acquisition of subsidiaries is 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 (see note (d)). Minority interests not held by the group are allocated their share of profit after tax in the income statement and are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

NOTES TO THE FINANCIAL STATEMENTS

(d) Business combinations

The purchase method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the group's share of identifiable net assets acquired is recognised as goodwill. If the cost of the acquisition is less than the group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognisable as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(e) Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other operating business segments. Management has assessed the reportable business segments under AASB 114 Segment Reporting and have determined that, on adoption of AASB 8 Segment Reporting (applicable from 1 January 2009), additional operating segments will most likely be reported. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

(f) Foreign currency translation

i) Functional and presentation currency

The functional and presentation currency of both Electrometals Technologies Limited and its Australian subsidiaries is Australian dollars ($). The functional currency of Electrometals Canada is Canadian dollars and the functional currency of Kurion Technologies is British pounds, both of which are translated to the presentation currency (see below).

ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

iii) Translation of group companies functional currency to presentation currency

The results of the Electrometals Canada and Kurion Technologies are translated into Australian Dollars and their assets and liabilities are translated at exchange rates prevailing at balance date. Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity. On consolidation, exchange differences arising from the translation of the net investment in these companies are taken to the foreign currency translation reserve. If the investment in these companies were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in the income statement.

(g) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

(h) Trade and other receivables

Trade receivables, which generally have 30-60 days terms, are accounted for at trade date, initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. The likelihood of collecting trade receivables is reviewed on an ongoing basis at operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(i) Inventories

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials: Purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of purchase.

Finished goods and work-in-progress: Cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of weighted average costs.

(j) Derivative financial instruments and hedging

The group uses derivative financial instruments to hedge its exposure to foreign exchange risks from operational activities. The company does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are initially recognised in the financial statements at fair value. Subsequent to initial recognition, the gain or loss on remeasurement is recognised in the income statement. Hedge accounting is not applied. The fair value of derivative financial instruments is determined by reference to quoted market prices at balance sheet date. If a quoted price is not available, the fair value is the estimated amount payable or receivable to terminate the instrument at balance sheet date, taking into account available market information.

(k) Property, plant and equipment

Plant and equipment are stated at historical 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. All other repairs and maintenance are recognised in profit and loss as incurred. Depreciation is calculated using the diminishing value method, which has been applied at the following rates:

Computer equipment	40%
Motor vehicles	20%
Other machinery and equipment	20%

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

De-recognition

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.

(l) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys the right to use the asset.

Group as a lessee

The group has no finance leases in place. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. The group has received no operating lease incentives.

NOTES TO THE FINANCIAL STATEMENTS

(m) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Electrometals Technologies Limited conducts an internal review of asset values on a periodic basis, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's 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 the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(n) Goodwill and intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

When the recoverable amount of the cash-generating unit (group of cash generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied, requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible assets arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

Patents

Patent costs are recognised as an expense in the income statement as and when they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

(o) Pensions and other post-employment benefits

The group makes payments to external superannuation funds under the compulsory superannuation contribution scheme, as required by law and as directed by employees. These contributions are recognised as an expense in the income statement as and when they are incurred.

(p) Trade and other payables

Trade and other payables are accounted for at trade date and are carried at amortised cost and, due to their short term nature, they are not discounted. They 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. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are measured subsequently at amortised cost, using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings. Borrowings are classified as current liabilities, unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Borrowing costs

Borrowing costs are recognised as an expense when incurred. The group does not hold qualifying assets currently; but, if it did, the borrowing costs directly associated with those assets would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

(r) Provisions and employee benefits

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

When the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee Leave Benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual expected to be settled within 12 months of the reporting date are recognised 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. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of future payments expected 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 periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms of maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(s) Share-based payment transactions

Equity-settled transactions

The group provides benefits to employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'). The plan in place is called the Employee Share Option Plan (ESOP), under which eligible employees are entitled to receive benefits.

NOTES TO THE FINANCIAL STATEMENTS

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. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Electrometals Technologies Limited (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 (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:
i) the grant date fair value of the award;
ii) the current best estimate on the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood on non-market performance conditions being met; and
iii) the expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above, less the amounts already charged in previous periods. There is a corresponding entry to equity.

Equity-settled awards granted by Electrometals to employees of subsidiaries are recognised in the parent's separate financial statement as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by Electrometals in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the group is the total expense associated with all such awards. Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided all other conditions are satisfied.

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. An additional 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 diluted earnings per share (see note 9).

(t) Contributed equity and preference shares

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

(u) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Plant and system sales, laboratory testing and on-site pilot programs

Revenue derived by the parent company from contracts for the supply of electrowinning plants, laboratory testing and on-site pilot programs is recognised by reference to the stage of completion, which is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Revenue derived by Kurion Technologies for their systems sales is recognised on the basis of total labour and materials costs incurred on a project, marked up at the expected final margin. In both cases, where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(ii) Sale of spare parts

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of goods to the customer.

(iii) Interest income

Revenue is recognised as interest accrues, using the effective interest method. This is a method of calculating the amortised cost of a financial assets and allocating the interest over the relevant period, using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS

(v) Income tax and other taxes

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 based on the current period's taxable income. 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 assets 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 and 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.

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 it has become probable future taxable profit will allow the deferred tax 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.

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.

Other taxes

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

- 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. Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as part of operating cash flows. Commitments and contingencies are disclosed net of the GST recoverable from, or payable to, the taxation authority.

(w) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's principal financial instruments comprise receivables, payables, cumulative convertible redeemable preference shares, cash and short-term deposits and derivatives. The group manages its exposure to key financial risks, specifically interest rate risk and currency risk, in accordance with the group's financial risk management policy. The objective is to support the delivery of the group's financial targets whilst protecting and enhancing future financial security. The group enters into derivative transactions, consisting of forward currency contracts, the purpose being to manage the currency risk arising from the group's operations. The group does not trade in derivatives. The derivatives entered into provide economic hedges, but do not qualify for hedge accounting.

The main risks arising from the group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The group uses different methods to measure and manage different types of risk to which it is exposed. These include the monitoring levels of exposure to interest rate and foreign exchange risk, and assessments of market forecast for interest rates and foreign exchange rates. Ageing analyses and monitoring of specific credit allowance are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cashflow forecasts which are tabled and reviewed at each board meeting.

Primary responsibility for identification and control of financial risks rests with the board of directors, however the day-to-day management of these risks is under the control of the Chief Executive Officer in conjunction with the Financial Controller. The board reviews and agrees the strategy for managing future cash flow requirements and projections, however the management of hedging cover of foreign currency (comprising solely euros and US dollars) and interest rate risk is undertaken by the Chief Executive Officer and Financial Controller.

Risk exposures and responses

Interest rate risk

The group's exposure to market interest rates relates primarily to the group's funds held on term deposit. The level of these deposits is disclosed in note 10. At balance date the group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	Consolidated		**Parent**	
	2008	2007	**2008**	2007
	$	$	**$**	$
Financial assets				
Cash and cash equivalents	2,998,002	7,650,548	2,944,477	7,654,141
Financial liabilities				
Bank loans	(71,488)	-	-	-
Net exposure	2,926,514	7,650,548	2,944,477	7,654,141

The group's policy is to place funds on interest-bearing term deposit that are surplus to immediate requirements. The group's interest rate exposure is reviewed near the maturity date of term deposits, to assess whether more attractive interest rates are available without increasing risk. The following sensitivity analysis is based on the interest rate exposures in existence at balance sheet date:

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements	**Post tax profit Higher / (lower)**		**Equity High / (lower)**	
	2008	2007	**2008**	2007
	$	$	**$**	$
Consolidated				
+ 1% (100 basis points)	60,000	68,000	60,000	68,000
-0.5% (50 basis points)	(30,000)	(34,000)	(30,000)	(34,000)
Parent				
+ 1% (100 basis points)	61,000	68,000	61,000	68,000
-0.5% (50 basis points)	(30,000)	(34,000)	(30,000)	(34,000)

The movements in profit and equity are due to higher/(lower) interest income from cash balances.

Foreign currency risk
The group's sales are almost entirely to overseas customers and it also sources components from overseas. For sales, the contracts are usually denominated in Australian dollars, therefore the foreign exchange risk is effectively passed to the customer. For the purchase of overseas components, no forward exchange cover is obtained for small items, as the cost cannot be justified. For larger purchases, an assessment is made at the time the invoice is received whether to obtain forward currency cover, having regard to recent and anticipated currency movements.

At 31 December 2008, the group had the following exposure to foreign currency that is not designated in cash flow hedges:

	Consolidated		**Parent**	
	2008	2007	**2008**	2007
	$	$	**$**	$
Financial liabilities				
Trade and other payables	177,177	329,158	177,177	329,158

As outlined in note 22, the group also makes use of forward currency contracts designated as cash flow hedges that are subject to fair value movements through equity and profit and loss respectively, as foreign exchange rates move. At 31 December 2008, however, the group had no forward currency contracts in place.

The following sensitivity is based on foreign currency risk exposures in existence at the balance sheet date:

At 31 December 2008, had the Australian dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements	**Post tax profit Higher / (lower)**		**Equity High / (lower)**	
	2008	2007	**2008**	2007
	$	$	**$**	$
Consolidated				
AUD/All currencies + 10%	17,717	75,961	17,717	75,961
AUD/All currencies - 5%	(8,858)	(37,980)	(8,858)	(37,980)
Parent				
AUD/All currencies + 10%	17,717	75,961	17,717	75,961
AUD/All currencies - 5%	(8,858)	(37,980)	(8,858)	(37,980)

The potential movements in profit in 2008 are more sensitive than in 2007 due to the lower level of payables in foreign currency at balance date.

Management believes the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

Price risk
The group's exposure to commodity price risk is minimal and not material.

NOTES TO THE FINANCIAL STATEMENTS

Credit risk

Credit risk arises from the financial assets of the group, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. The group's exposure to credit risk arises from the potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note. The group does not hold any derivatives to offset its credit exposure.

The group trades for the most part with recognised creditworthy third parties and, as such, collateral is not requested nor is it the group's policy to securitise its trade and other receivables. However, the group has a policy of seeking a substantial deposit on the sale of its electrowinning plants and water treatment systems, to cover outlays on materials and components required when the manufacture of a plant begins. Receivable balances are monitored on an ongoing basis, with the result that the group's exposure to bad debts is minimised. Term deposits funds are placed with major financial institutions to minimise the risk of default of counterparties.

Liquidity risk

The group's objective is to maintain sufficient funds to finance its current operations and additional funds to ensure its long-term survival in the event of a business downturn. Currently, the group is almost entirely dependent on shareholder funds and surpluses derived from operations. The table below reflects all contractually fixed pay-offs and receivables for settlement resulting from recognised financial assets and liabilities, including derivative financial instruments as of 31 December 2008. For derivative financial instruments, the market value is presented, whereas for the other obligations the respective undiscounted cash flows for the upcoming fiscal years are presented. There are no financial assets or liabilities without a fixed amount or timing existing at 31 December 2008. The remaining contractual maturities of the group's and parent entity's financial liabilities are:

	Consolidated		**Parent**	
	2008	2007	**2008**	2007
	$	$	**$**	$
6 months or less	1,212,986	1,532,300	656,796	1,525,354
6-12 months	19,825	-	-	-
1-5 years	31,838	-	-	-
	1,264,649	1,532,500	656,796	1,525,354

Maturity analysis of financial assets and liabilities based on management's expectation

Trade payables and other financial liabilities mainly originate from the financing of assets used in ongoing operations such as property, plant, equipment, and investments in working capital, e.g. inventories and trade receivables. These assets are considered in the group's overall liquidity risk. To monitor existing financial assets and liabilities as well to enable an effective controlling of future risk, Electrometals Technologies Limited has established ongoing risk reporting covering its business that reflects expectations of management of expected settlement of financial assets and liabilities.

Fair value

The methods for estimating fair value are outlined in the relevant notes to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenues and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which forms the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

i) Significant accounting judgements

Operating lease commitments – group as lessee
The group has entered into commercial property leases for properties from which its operations are carried out. The group has determined that it has none of the significant risks and rewards of ownership of these properties and has thus classified the leases as operating leases.

Impairment of non-financial assets other than goodwill
The group assesses impairment of all assets at each reporting date by evaluating conditions specific to the group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined. An impairment loss has been recognised in this financial period.

Revenue recognition
Revenue recognition by the parent company on contracts for the supply of electrowinning plants, laboratory testing and on-site pilot programs is based on percentage completion, measured by actual hours versus budgeted hours. Revenue derived by Kurion Technologies for their systems sales is recognised on the basis of total labour and materials costs incurred on a project, marked up at the expected final margin.

Capitalised development costs
Development costs are only capitalised by the group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale.

Taxation
The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet.

Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependant on the generation of sufficient future taxable profits.

Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives
The group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated.

Share-based payment transactions
The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black Scholes model, with the assumptions detailed in note 29. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Make good provisions
No provision has been made for the present value of anticipated costs of future restoration of leased premises, as the likely costs are not considered to be material.

Estimation of useful lives of assets
The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipments) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

If the useful lives of assets were shortened by 20% for each asset, the financial effect on consolidated depreciation expense for the current financial year and the next four years would not be material:

Depreciation charges are included in note 6.

NOTES TO THE FINANCIAL STATEMENTS

5. SEGMENT INFORMATION

During the year, the group's activities consisted of manufacturing equipment in Australia for the metals processing industry, with an office in Canada and, after the acquisition of the 51% shareholding in the UK company Kurion Technologies Limited on 19 February 2008, the group's activities consisted also of manufacturing equipment in the UK for water treatment. The primary (business) and secondary (geographical) segments are identical.

	Electrowinning Technology	Water Treatment	
	Australia and Canada	United Kingdom	Total
	2008	2008	2008
	$	$	$
Revenue			
Sales to external customers	3,645,142	3,076,675	6,721,817
Inter-segment sales	51,001	-	51,001
Total segment revenue	3,696,143	3,076,675	6,772,818
Inter-segment elimination	(51,001)	-	(51,001)
Total consolidated revenue	3,645,142	3,076,675	6,721,817
Result			
Profit / (loss) before tax and finance costs	(2,202,794)	(124,879)	(2,327,673)
Finance costs	-	(6,375)	(6,375)
Profit / (loss) before income tax	(2,202,794)	(131,254)	(2,334,048)
Income tax refund / (expense)	-	37,596	37,596
Net profit / (loss) for the half-year	(2,202,794)	(93,658)	(2,296,452)
Assets and liabilities			
Segment assets	7,526,749	612,304	8,139,053
Inter-segment elimination	(451,820)	-	(451,820)
Total assets	7,074,929	612,304	7,687,233
Segment liabilities	870,786	1,206,654	2,077,440
Inter-segment elimination	-	(612,500)	(612,500)
Total liabilities	870,786	594,154	1,464,940
Other segment information			
Capital expenditure	517,995	8,496	526,491
Depreciation and amortisation	(150,350)	(6,283)	(156,633)
Cash flow information			
Net cash flow from operating activities	(3,359,900)	(660,350)	(4,020,250)
Net cash flow from investing activities	(676,028)	32,841	(643,187)
Net cash flow from financing activities	-	(34,460)	(34,460)

NOTES TO THE FINANCIAL STATEMENTS

5. SEGMENT INFORMATION - continued

2007 Comparative figures (there were no separate business segments in 2007)

Electrowinning Technology – Australia	Australia and Canada
	$
Revenue	
Sales to external customers	9,874,038
Result	
Profit / (loss) before tax and finance costs	633,850
Finance costs	-
Profit / (loss) before income tax	633,850
Income tax expense	-
Net profit / (loss) for the half-year	633,850
Assets and liabilities	
Segment assets	10,302,935
Segment liabilities	1,759,279
Other segment information	
Capital expenditure	341,789
Depreciation and amortisation	(110,125)
Cash flow information	
Net cash flow from operating activities	(1,472,297)
Net cash flow from investing activities	119,860
Net cash flow from financing activities	5,190,587

6. EXPENSES

	Consolidated		**Parent**	
	2008	2007	**2008**	2007
	$	$	**$**	$
(a) Other expenses				
Net foreign exchange differences	(27,708)	-	-	-
Bad debts written off	(115,868)	(63,944)	(115,868)	(63,944)
Provision for doubtful debts	114,308	(50,364)	(499,660)	(567,364)
Development costs writedown	-	(110,854)	-	(110,854)
Inventory writedown	-	(30,625)	-	(30,625)
Research and development written off	(170,334)	(329,713)	(36,921)	(329,713)
Test programs written off	(125,566)	(76,458)	(125,566)	(76,458)
	(325,168)	(661,958)	(778,015)	(1,178,958)
(b) Finance costs				
Interest expense	(6,375)	-	-	-
(c) Depreciation included in income statement	(156,634)	(110,125)	(137,617)	(102,551)
(d) Operating lease payments				
Minimum operating lease payments	(414,038)	(303,965)	(312,763)	(303,965)
(e) Employee benefits expense				
Wages and salaries	(2,318,846)	(2,085,273)	(1,596,012)	(1,765,100)
Superannuation contributions	(254,219)	(247,104)	(220,559)	(247,104)
Share-based payment expense	(75,205)	(31,240)	(75,205)	(31,240)
Other employee benefits expense	-	(8,554)	-	(8,554)
	(2,648,270)	(2,372,171)	(1,891,776)	(2,051,998)

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$	$	**$**	$

7. INCOME TAX

Major components of income tax expense for the years ended 31 December 2008 and 2007 are:

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Income statement				
Current income tax				
Current income tax benefit	37,596	-	-	-

For the years ended 31 December 2008 and 2007, a reconciliation of income tax expense applicable to accounting loss before income tax at the statutory income rate as compared to income tax expense at the group's effective income tax rate is as follows:

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Accounting profit / (loss) before income tax	(2,334,048)	633,850	(1,978,592)	502,675
Income tax at statutory rates 30%	700,214	(190,155)	593,578	(150,803)
Expenditure not allowable for income tax purposes	(22,562)	(9,372)	(22,562)	(9,372)
Deductions allowed for prior years share issue expenses	34,636	-	34,636	-
Benefit of tax not previously brought to account	(674,692)	199,527	(605,652)	160,175
Income tax benefit in income statement	37,596	-	-	-

The directors estimate that the potential deferred tax asset (net) as at 31 December 2008 not brought to account is $7,628,815 (2007: $6,888,668) at the income tax rate of 30%. The majority of this benefit comprises unused tax losses brought forward from previous years, being $7,428,580 (2007: $6,647,966).

The benefit of tax losses available for offset against future taxable income will only be obtainable if:

(i) The company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the losses to be realised;

(ii) The company continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) No changes in tax legislation adversely affect the company in realising the benefit from the deduction for the losses.

8. DIVIDENDS PAID AND PROPOSED

The company has not declared or paid any dividends. Due to past losses incurred by the company, there are no franking credits available for the subsequent financial year.

9. EARNINGS PER SHARE

	Consolidated 2008	Consolidated 2007
(a) Earnings used in calculating earnings per share		
For basic and diluted earnings per share		
Net profit / (loss)	(2,296,452)	633,850
Adjustment for preference shares	(21,333)	(21,333)
	(2,317,785)	612,517
(b) Weighted average number of ordinary shares for basic earnings per share	204,357,579	184,679,475
Effect of dilution		
Share options	768,000	1,870,769
Preference shares	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	205,125,579	186,550,244

NOTES TO THE FINANCIAL STATEMENTS

Information on the classification of securities:

(i) Options

Options granted to employees (including key management personnel) as described in note 29 are considered as potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options were not included in the determination of basic earnings per share.

(ii) Preference shares

The redeemable preference shares as described in note 23 are considered to be potential ordinary shares, but they have not been included in the determination of diluted earnings per share because they are anti-dilutive.

10. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated		**Parent**	
	2008	2007	**2008**	2007
	$	$	**$**	$
Cash at bank and on hand	98,002	150,548	44,477	154,141
Short-term deposits	2,900,000	7,500,000	2,900,000	7,500,000
	2,998,002	7,650,548	2,944,477	7,654,141

Reconciliation to cash flow statement

The above figures correspond to the cash and cash equivalents shown in the cash flow statement.

11. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated 2008 $	**Consolidated 2007 $**	**Parent 2008 $**	**Parent 2007 $**
Trade debtors – other persons/corporations	483,938	412,211	210,150	366,106
Less: provision for doubtful debts	-	(114,308)	-	(114,308)
	483,938	297,903	210,150	251,798
Related parties receivables – subsidiaries	-	-	2,482,468	1,256,918
Less: provision for doubtful debts	-	-	(1,869,968)	(1,256,000)
	-	-	612,500	918
Unbilled accrued revenue	1,056,074	770,245	957,689	770,245
Other	130,662	20,312	14,488	12,544
	1,670,674	1,088,460	1,794,827	1,035,505

(a) Allowance for impairment loss

Trade receivables are not interest-bearing and are generally on 30-60 days terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. No impairment loss arising from non-recoverability of debtors has been recognised by the group in the current year (2007: $114,308). Movements in the provision for impairment loss were as follows:

	Consolidated 2008 $	**Consolidated 2007 $**	**Parent 2008 $**	**Parent 2007 $**
Other persons/corporations – 1 January	114,308	63,944	114,308	63,944
Charge for the year	-	114,308	-	114,308
Amounts written off	(114,308)	(63,944)	(114,308)	(63,944)
Closing balance	-	114,308	-	114,308
Related parties – 1 January	-	-	1,256,000	739,000
Charge for the year	-	-	613,968	517,000
Closing balance	-	-	1,869,968	1,256,000

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

(b) Related party receivables

For terms and conditions of related party receivables, refer to note 27.

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

(d) Foreign and interest rate risk

Detail regarding foreign exchange and interest rate risk is disclosed in note 3.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$	$	**$**	$
12. CURRENT ASSETS – INVENTORIES				
Raw materials and stores - at cost	732,286	661,609	668,678	661,609
Finished goods	451,650	115,724	451,650	115,724
	1,183,936	777,333	1,120,328	777,333

Inventories recognised as an expense for the year ended 31 December 2008 totalled $4,202,188 (2007: $4,447,767) for the group and $2,302,140 (2007: $4,430,094) for the company. This expense has been included in the cost of sales line item as a cost of inventories. Inventory writedowns recognised as an expense totalled $Nil (2007: $30,625) for both the group and the company.

13. NON-CURRENT ASSETS – RECEIVABLES

Deposits	27,409	28,409	27,409	28,409

(a) The deposits are held in relation to the company's office accommodation, workshop space and power supply. All amounts are receivable in Australian dollars and are not considered past due or impaired.
(b) The fair values are the same as the carrying values.
(c) The interest rate and credit risks are not material.

14. NON-CURRENT ASSETS – INVESTMENTS IN SUBSIDIARIES

Investments in controlled entities				
At cost (note 27)	104	-	1,047,652	562,500
Less: Provision for diminution in value	-	-	(562,500)	(562,500)
	104	-	485,152	-

15. NON-CURRENT ASSETS – PLANT & EQUIPMENT

(a) Reconciliation of carrying amounts at the beginning and end of the period:

Opening carrying amount, net of accumulated depreciation and impairment	694,137	466,296	659,917	446,754
Additions	526,491	341,789	469,654	321,789
Net assets acquired on business combination	54,941	-	-	-
Disposals	(37,189)	(6,075)	(5,320)	(6,075)
Depreciation expense (note 6 (c))	(156,634)	(110,125)	(137,617)	(102,551)
Foreign currency exchange difference	990	2,252	-	-
Carrying amount at the end of the year, net of accumulated depreciation and impairment	1,082,736	694,137	986,634	659,917

(b) Carrying amounts if plant and equipment were measured at cost less accumulated depreciation and impairment:

Plant & equipment at cost	1,583,881	957,456	1,372,657	878,417
Plant & equipment under construction	120,480	158,935	120,480	158,935
Less: accumulated depreciation and impairment	(621,625)	(422,254)	(506,503)	(377,435)
Net carrying amount	1,082,736	694,137	986,634	659,917

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$	$	**$**	$

16. NON-CURRENT ASSETS – GOODWILL AND OTHER INTANGIBLE ASSETS

(a) Reconciliation of carrying amounts at the beginning and end of the year

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Opening carrying amount, net of accumulated amortisation and impairment	-	109,612	-	109,612
Addition – goodwill on acquisition	645,832	-	-	-
Addition – automated harvester	-	1,242	-	1,242
Amortisation	-	(110,854)	-	(110,854)
Closing carrying amount, net of accumulated amortisation and impairment	645,832	-	-	-
Gross carrying amount				
Development costs – automated harvester	110,854	110,854	110,854	110,854
Goodwill on acquisition	1,235,807	589,975	-	-
Less: Accumulated amortisation	(700,829)	(700,829)	(110,854)	(110,854)
Net carrying amount	645,832	-	-	-

(b) Description of the group's intangible assets and goodwill

(i) Development costs

Development costs are carried at cost less accumulated amortisation and accumulated impairment losses. The amortisation has been recognised in the income statement in the line item "other expenses".

(ii) Goodwill

After initial recognition, goodwill measured on a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised, but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

17. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Trade payables	722,743	1,105,852	292,690	1,098,906
Accruals	470,418	426,448	364,106	426,448
	1,193,161	1,532,300	656,796	1,525,354

(a) Due to the short-term nature of these payables, the carrying value is assumed to approximate fair value.
(b) For terms and conditions applying to related party payables, refer to note 27.
(c) Information regarding interest rate, foreign exchange and liquidity risk exposure in set out in note 3.

18. CURRENT LIABILITIES – DEFERRED INCOME

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Progress billings for contracts in progress	-	151,630	-	151,630
Less: revenue recognised	-	(75,380)	-	(75,380)
	-	76,250	-	76,250

Revenue in advance represents payments on contracts received in advance of being taken up in the profit and loss on a percentage completion basis. The carrying amount is assumed to approximate fair value.

19. CURRENT LIABILITIES – PROVISIONS

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Employee benefits – Annual leave	165,325	126,049	148,207	115,282
Movement in provision				
Opening balance	126,049	104,241	115,282	101,096
Arising during the year	243,846	145,645	171,135	119,753
Utilised	(204,570)	(123,837)	(138,210)	(105,567)
Closing balance	165,325	126,049	148,207	115,282

Refer to note 2(q)(i) for the relevant accounting policy and a discussion of the significant estimations and assumptions in the measurement of this provision.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$	$	**$**	$
20. NON-CURRENT LIABILITIES – PROVISIONS				
Employee benefits – Long service leave	34,966	24,680	34,966	24,680
Movement in provision				
Opening balance	24,680	30,312	24,680	30,312
Arising during the year	11,300	6,540	11,300	6,540
Utilised	-	-	-	-
Relinquished	(1,014)	(12,172)	(1,014)	(12,172)
Closing balance	34,966	24,680	34,966	24,680
21. INTEREST-BEARING LIABILITIES				
Current				
Bank loan - $166,664 secured	39,650	-	-	-
Non-current				
Bank loan - $166,664 secured	31,838	-	-	-
22. DERIVATIVE FINANCIAL INSTRUMENTS				
Current liabilities				
Nominal value of forward currency contracts	-	430,457	-	430,457

Derivative financial instruments in the form of foreign currency contracts are used by the group in the normal course of business in order to hedge exposure to fluctuations in foreign currency exchange rates. They are specifically used to fix the purchase cost of firm orders placed for overseas-sourced manufacturing components, with the contracts usually being 60 days or less. The group does not trade in these derivative financial instruments. Although the forward currency contracts are matched against forecast inventory purchases, the company has chosen not to adopt hedge accounting and any gain or loss on the contracts attributable to the hedged risk is taken directly to the Income Statement.

Forward currency contracts – cash flow hedges
The cash flows are expected to occur within 60 days from 1 January and the profit or loss within cost of sales will be affected over the next few months as the inventory is either used in production or sold. At balance date, the details of the outstanding contracts are:

	Notional amounts		Average exchange rate	
	2008	2007	**2008**	2007
	$	$		
Buy euros / sell Australian dollars				
Consolidated and parent	-	430,457	-	0.5901

23. CUMULATIVE REDEEMABLE CONVERTIBLE PREFERENCE SHARES

The 8% cumulative redeemable convertible preference shares were issued in 1998. Holders of the preference shares are entitled to receive a cumulative fixed preferential dividend at the rate of 8% per annum on the issue price (40c), but have no further right to participate in profits or losses of the company, whether surplus or otherwise. The company shall not redeem the preference shares before June 2008, and has no obligation to do so after that time, and any redemption shall be from profits that would otherwise be available for dividends, or out of the proceeds of a fresh issue of shares made for the purpose of the redemption. The preference shareholders do not have the right to have the shares redeemed; they may convert each preference share into an ordinary share at any time by giving written notice to the company and, when converted, all unpaid arrears of dividends in respect of the converted shares are deemed to be cancelled. The cumulative dividend on preference shares not recognised at 31 December 2008 is $224,672 (2007: $203,339).

	Consolidated		**Parent**	
	2008	2007	**2008**	2007
	$	$	**$**	$
Balance	133,333	133,333	133,333	133,333

Due to the conditions attaching to the preference shares, their maturity date is uncertain. Their carrying value is therefore considered to be their fair value.

24. CONTRIBUTED EQUITY

	Shares	Shares	**$**	**$**
Issued and paid up capital:	***2008***	*2007*	***2008***	*2007*
Fully paid ordinary shares	204,357,579	204,357,579	33,187,455	33,187,455
Fully paid 8% cumulative redeemable convertible preference shares (see note 23)	666,667	666,667	133,333	133,333
	205,024,246	205,024,246	33,320,788	33,320,788

Movement in shares on issue

Date	Detail	**Number**	**$**
1.1.2007	Balance*	133,689,476	28,116,262
10.4.2007	Non-renounceable pro rata issue @ 8c per share	66,511,404	5,320,912
10.4.2007	Underwriter's shares	4,323,241	345,859
	Share issue expenses	-	(486,063)
19.7.2007	Conversion of options	500,000	25,000
	Share registry expenses	-	(1,200)
14.12.2007	Conversion of options	125	18
31.12.2008	Balance*	205,024,246	33,320,788

* Includes 666,667 fully paid 8% cumulative redeemable convertible preference shares.

The ordinary shares do not have a par value. Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

(a) Capital management

When managing capital, management's objective is to ensure the group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the group. As the market is constantly changing, management may return capital to shareholders, issue new shares, sell assets to reduce debt or vary any dividends paid to shareholders. No dividends have been paid in 2008 or 2007, and there are no current plans to pay dividends. Management has no current plans to issue further shares on the market.

The level of cash and cash equivalents on hand at 31 December 2008 and 2007 was in excess of the total borrowings (including interest-bearing loans and trade and other payables), therefore a gearing ratio has not been calculated.

The group is not subject to any externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

25. RETAINED EARNINGS AND RESERVES

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
(a) Movements in retained earnings were as follows:				
Balance 1 January	(24,827,587)	(25,461,437)	(24,933,945)	(25,436,620)
Net profit / (loss)	(2,296,452)	633,850	(1,978,592)	502,675
Balance 31 December	(27,124,039)	(24,827,587)	(26,912,537)	(24,933,945)
(b) Movement in foreign currency translation reserve:				
Balance 1 January	(38,837)	5,273	-	-
Increase / (decrease)	54,263	(44,110)	-	-
Balance 31 December	15,426	(38,837)	-	-
(c) Movement in employee equity benefits reserve				
Balance 1 January	89,292	58,052	89,292	58,052
Share-based payment	75,205	31,240	75,205	31,240
Balance 31 December	164,497	89,292	164,497	89,292
(d) Movement in minority interests reserve				
Balance 1 January	-	-	-	-
Increase / (decrease)	(154,379)	-	-	-
Balance 31 December	(154,379)	-	-	-

(e) Nature and purpose of reserves

Employee equity benefits reserve
The employee equity benefits reserve is used to record the value of share-based payments to employees, including key management personnel, as part of their remuneration. Refer to note 29 for details.

Foreign currency translation reserve
The foreign currency translation reserve is used to record foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Minority interests reserve
The minority interests reserve is used to record the interests of minority shareholders in the equity of the group.

26. CASH FLOW STATEMENT RECONCILIATION

Reconciliation of the net profit / (loss) after tax to net operating cash flows:

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Net profit / (loss) after tax	(2,296,452)	633,850	(1,978,592)	502,675
Adjustments for:				
Depreciation	156,634	110,125	137,617	102,551
Net loss on disposals of plant and equipment	35,643	6,075	5,320	6,075
Development costs written off	-	110,854	-	110,854
Share-based payments expense	75,205	31,240	75,205	31,240
Interest received	(354,699)	(451,753)	(365,599)	(451,753)
Changes in assets and liabilities				
Decrease (increase) in inventories	(303,195)	(593,290)	(342,995)	(593,290)
Decrease (increase) in debtors and prepayments	(409,092)	12,567	(23,927)	66,101
(Decrease) increase in creditors and provisions	(915,501)	(1,322,064)	(369,574)	(773,664)
GST on investing and financing cash flows	6,125	35,163	6,125	35,163
Foreign exchange movement	(14,918)	(45,064)	-	(11,393)
Net cash flow (outflow) from operating activities	(4,020,250)	(1,472,297)	(2,856,420)	(975,441)

NOTES TO THE FINANCIAL STATEMENTS

27. RELATED PARTIES INFORMATION

Group

The group consists of Electrometals Technologies Limited and the following subsidiaries:

Name	Incorporated in	Class of shares	Holding % ***2008***	Holding % *2007*
Electrometals Canada Inc.	Canada	Ordinary	100	100
Kurion Technologies Limited	England	Ordinary	51	-
Materials Research Pty Ltd	Australia	Ordinary	100	100
Mallonbury Pty Ltd	Australia	Ordinary	97.4	97.4

Electrometals Technologies Limited is the ultimate parent entity of the group. The subsidiaries Materials Research Pty Ltd and Mallonbury Pty Ltd have not been consolidated because each is dormant and the investment in each is not material. In February 2008, Electrometals acquired a 51% shareholding In Kurion Technologies Limited, details of which are outlined in note 30.

Transactions between Electrometals Technologies Limited and companies in the group during the years ended 31 December 2008 and 2007 consisted of:

- Loans were advanced to Electrometals Canada Inc. during the current and previous financial years. The advances are interest free, unsecured and with no fixed repayment terms.
- Administration and accounting services have been provided to Electrometals Canada Inc. free of charge during the current and previous financial years.
- Loans were advanced to Kurion Technologies Limited during 2008, at commercial interest rates.
- A management charge of $172,525 was charged during the year by the parent company to Kurion Technologies Limited, in respect of strategic planning work carried out for Kurion.
- Kurion Technologies purchased goods and services from the parent company amounting to $51,001 during 2008.

Other related party transactions

Substantial shareholder

Industrie de Nora S.p.A. and its related companies have received or become entitled to receive benefits for the supply of goods and services. Electrometals also provided goods and services to De Nora. Amounts paid or payable totalled $491,423 (2007: $1,976,930) and amounts received or receivable totalled $36,563 (2007: $62,272). Balance payable at year-end: $78,378 (2007: $678,943). Balance receivable at year-end: $4,000 (2007: 12,368).

Directors

R G Melgaard, as a director of Semper Holdings Limited. Semper has received or become entitled to receive benefits for the supply of services and related travel costs in relation to the purchase of the shareholding in Kurion Technologies Limited and the ongoing management of that company. Amounts paid or payable totalled $59,969 (2007: N/A). Balance payable at year-end: $Nil (2007: N/A).

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions, both at normal market prices and on normal terms. Outstanding balances at the end of the year are unsecured and interest-free; settlement occurs in cash. In the year ended 31 December 2008, the group has not made any allowance for doubtful debts relating to amounts owed by related parties.

Key management personnel

Details relating to key management, including remuneration paid, are included in note 28.

NOTES TO THE FINANCIAL STATEMENTS

28. KEY MANAGEMENT PERSONNEL

(a) Details of key management personnel

Directors	R E Keevers	Chairman and CEO	
	R G Melgaard	Deputy Chairman and non-executive director	
	G A Marshall	Non-executive director	Resigned 16.5.2008
	J Bastoni	Non-executive director	
	B L Kelly	Non-executive director	
Executives	I D Ewart	Senior Process Engineer & President, Electrometals Canada	
	I A S Burke	Managing Director, Kurion Technologies	Joined 19.2.2008
	R L Burling	Engineering Manager	Resigned 30.6.2008
	K G Powell	General Manager, Sales and Marketing	
	M J Brown	Senior Metallurgist	
	R A Palmer	Senior Process Chemist	
	T Stapurewicz	Senior Metallurgist	
	C C Barker	Company Secretary & Financial Controller	

(b) Compensation of key management personnel

	Consolidated		**Parent**	
	2008	2007	**2008**	2007
	$	$	**$**	$
Short-term employee benefits	1,146,150	1,161,970	731,046	876,168
Non-monetary benefits	38,520	2,967	-	-
Post-employment benefits	151,820	179,866	151,820	179,866
Share-based payments	69,771	29,414	57,340	20,667
	1,406,261	1,374,217	940,206	1,076,701

Electrometals Technologies Limited has applied the option under Corporations Amendments Regulation 2006 to transfer key management personnel remuneration disclosures required by AASB 124 Related Party Disclosures Aus 25.4 to Aus 25.7.2 to the Remuneration report section of the Directors' Report.
These transferred disclosures have been audited.

c) Shareholdings of key management personnel (consolidated)

The number of ordinary shares in the company held by key management personnel of the group and their related parties are set out below. Key management personnel and their related parties who held no shares during the year are not included.

2008	Balance at start of the year		Acquisitions / (disposals)		Balance at year-end	
Name	Directly	Indirectly	Directly	Indirectly	Directly	Indirectly
Directors						
R E Keevers	2,294,097	487,500	-	-	2,294,097	487,500
G A Marshall	-	330,000	-	-	-	330,000
J Bastoni	-	7,500	-	-	-	7,500
R G Melgaard	23,664,679	3,426,031	11,134,245	(3,426,031)	34,798,924	-
B L Kelly	165,000	-	-	-	165,000	-
Executives						
I D Ewart	26,625	-	-	-	26,625	-
R A Palmer	40,000	-		-	40,000	-
Total	26,190,401	4,251,031	11,134,245	(3,426,031)	37,324,646	825,000

2007	Balance at start of the year		Acquisitions / (disposals)		Balance at year-end	
Name	Directly	Indirectly	Directly	Indirectly	Directly	Indirectly
Directors						
R E Keevers	1,529,398	325,000	764,699	162,500	2,294,097	487,500
G A Marshall	-	220,000	-	110,000	-	330,000
J Bastoni	-	5,000	-	2,500	-	7,500
R G Melgaard	11,000,000	2,284,021	12,664,679	1,142,010	23,664,679	3,426,031
B L Kelly	110,000	-	55,000	-	165,000	-
Executives						
I D Ewart	26,625	-	-	-	26,625	-
R A Palmer	40,000	-		-	40,000	-
Total	12,706,023	2,834,021	13,484,378	1,417,010	26,190,401	4,251,031

NOTES TO THE FINANCIAL STATEMENTS

(d) Option holdings of key management personnel (consolidated)

500,000 shares were issued during the year on exercise of remuneration options by key management personnel. Options over ordinary shares in the company provided as remuneration to key management personnel during the year; the numbers held during the year by key management personnel of the group, including their personally-related entities, are set out below:

2008 Name	Balance at the start of the year	Granted as remuneration	Options exercised	Other net changes	Balance at the end of the year	Exercisable	Not exercisable
Directors							
R E Keevers	1,200,000	800,000	-	-	2,000,000	1,400,000	600,000
Executives			-				
I D Ewart	1,500,000	-	-	-	1,500,000	1,125,000	375,000
R L Burling	1,200,000	-	-	-	1,200,000	300,000	900,000
K G Powell	1,100,000	-	-	-	1,100,000	1,025,000	75,000
M J Brown	250,000	-	-	-	250,000	62,500	187,500
R A Palmer	940,000	-	-	-	940,000	715,000	225,000
T Stapurewicz	250,000	-	-	-	250,000	62,500	187,500
C C Barker	80,000	-	-	-	80,000	20,000	60,000
Total	6,520,000	800,000	-	-	7,320,000	4,710,000	2,610,000

2007 Name	Balance at the start of the year	Granted as remuneration	Options exercised	Other net changes	Balance at the end of the year	Exercisable	Not exercisable
Directors							
R E Keevers	1,200,000	-	-	-	1,200,000	900,000	300,000
Executives			-				
I D Ewart	1,000,000	500,000	-	-	1,500,000	750,000	750,000
R L Burling	-	1,200,000	-	-	1,200,000	-	1,200,000
M G Ross	1,000,000	-	(500,000)	(500,000)	-	-	-
K G Powell	1,000,000	100,000	-	-	1,100,000	750,000	350,000
M J Brown	-	250,000	-	-	250,000	-	250,000
R A Palmer	640,000	300,000	-	-	940,000	480,000	460,000
T Stapurewicz	-	250,000	-	-	250,000	-	250,000
C C Barker	-	80,000	-	-	80,000	-	80,000
Total	4,840,000	2,680,000	(500,000)	(500,000)	6,520,000	2,880,000	3,640,000

29. SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

The expense relating to the equity-settled share-based payment (and taken as a separate component of equity) at 31 December 2008 is $75,205 (2007: $31,240). The share-based payment plan is described below. There have been no cancellations or modifications to the plan during 2008 or 2007.

(b) Share option issue methods

Share options are granted to executives and staff under the Employee Share Option Plan, whose introduction was approved by shareholders at the annual general meeting on 30 May 2006 and which came into effect on 1 June 2006. Under the plan, each option entitles the holder, while employed by the company and during the option exercise period, to acquire one new listed ordinary share in the company at the option price. Subsequently, 6,600,000 options have been issued to executives and staff under the plan. Separately to the Employee Share Option Plan, shareholders in general meeting have also approved the issue of 2,000,000 options to the Chairman and CEO, Mr RE Keevers.

NOTES TO THE FINANCIAL STATEMENTS

29. SHARE-BASED PAYMENT PLANS - continued

(c) Summary of options granted.
The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options issued during the year.

	2008 Number	2008 **WAEP**	**2007** Number	2007 WAEP
Outstanding at the beginning of the year	6,800,000	8c	4,840,000	5c
Granted during the year	800,000	12c	2,960,000	11c
Forfeited during the year	-	-	(500,000)	5c
Exercised during the year	-	-	(500,000)	5c
Expired during the year	-	-	-	-
Outstanding at the end of the year	7,600,000	8c	6,800,000	8c

The outstanding balance at 31 December 2008 is represented by:

	Exercise price	Number	Vesting date	Exercise by
2,640,000	5c	1,320,000	15.9.2006	30.5.2010
	5c	660,000	15.9.2007	30.5.2011
	5c	660,000	15.9.2008	30.5.2011
1,200,000	5c	300,000	21.6.2006	30.5.2010
	5c	300,000	15.9.2006	15.9.2010
	5c	300,000	15.9.2007	15.9.2011
	5c	300,000	15.9.2008	15.9.2012
2,560,000	12c	640,000	30.6.2008	31.8.2012
	12c	640,000	30.6.2009	31.8.2012
	12c	640,000	30.6.2010	31.8.2012
	12c	640,000	30.6.2011	31.8.2012
1,200,000	10c	300,000	30.6.2008	31.8.2012
	10c	300,000	30.6.2009	31.8.2012
	10c	300,000	30.6.2010	31.8.2012
	10c	300,000	30.6.2011	31.8.2012
		7,600,000		

(d) Weighted average remaining contractual life
The weighted average remaining contractual life for the share options outstanding as at 31 December 2008 is 2.86 years (2007: 3.72 years).

(e) The range of exercise prices for options outstanding at the end of the year was 5c – 12c (2007: 5c – 12c).

(f) The weighted average fair value of options granted during the year was 4.8c (2007: 3.5c).

(g) Option pricing model
The fair value of the all the equity-settled share options granted is estimated as at the date of grant using a binomial model taking into account the terms and conditions on which the options were granted.

The following table details the inputs to the model:

Expected volatility (%)	75
Risk-free interest rate (%)	6.18
Expected life of option (years)	4.25 years
Weighted average options exercise price	12c
Weighted average share price at grant date	8.8c

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value. The fair value of cash-settled options is measured at grant date using a binomial option pricing model and taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. Until the liability is settled, it is remeasured at each reporting date, with changes in fair value recognised in profit and loss.

NOTES TO THE FINANCIAL STATEMENTS

30. BUSINESS COMBINATION

On 19 February 2008, Electrometals acquired 51% of the voting shares of Kurion Technologies Limited, a private company based in England which markets a wide range of environmental, reprocessing and recycling applications and technologies, some of which are complementary to the EMEW® electrowinning technology marketed by Electrometals. The total cost of the acquisition was A$485,152, paid in cash.

At the date of acquisition, Kurion had an excess of liabilities over assets, therefore the goodwill on acquisition consists of both the cash consideration paid together with the share of net liabilities acquired. In the period from 19 February 2008 to 31 December 2008, Kurion made a loss equivalent to A$279,292 and, as there is no commitment in place from the minority shareholders to cover the loss attributable to them, the loss has been included in the group consolidated profit and loss.

There is a requirement to state the effect on revenue and profit/loss if Kurion had been purchased on 1 January 2008. The accounts up to the time of acquisition were unaudited, and the treatment of contract profitability is different to that applicable currently, therefore it is not practical to present these figures.

The fair value of the purchased assets and liabilities are as follows. Electrometals consolidated 100% of the recorded assets and liabilities of Kurion at the date of acquisition, being:

	Recognised on acquisition $	Carrying value $
Fixed assets	54,941	54,941
Investments	104	104
Cash at bank	785	785
Stock and work in progress	103,944	103,944
Trade debtors	527,894	527,894
Other debtors	6,929	6,929
Prepayments	9,504	9,504
Loan to director	119,300	119,300
	823,401	823,401
Trade payables	(449,787)	(449,787)
Deferred income	(339,597)	(339,597)
Taxation and social security accruals	(127,646)	(127,646)
Other creditors	(30,100)	(30,100)
Corporate tax	(32,562)	(32,562)
Bank loan	(105,948)	(105,948)
Bank overdraft	(52,818)	(52,818)
	(1,138,458)	(1,138,458)
Fair value of identifiable net liabilities	(315,057)	
Shareholding acquired 51%	(160,680)	
Goodwill arising on acquisition	645,832	
	485,152	
Cost of the combination:		
Cash paid	400,000	
Direct costs related to the acquisition	85,152	
	485,152	

Cash outflow on acquisition was as follows	
Net cash acquired	(52,033)
Cash paid	(485,152)
Net cash outflow	(537,185)

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$	$	**$**	$
31. COMMITMENTS				
Operating lease commitments				
Payable as follows:				
Not later than one year	298,548	212,966	205,741	212,966
Later than one year but not later than five years	126,417	174,894	-	174,894
	424,965	387,860	205,741	387,860

These lease commitments relate to office space, workshop space and equipment rentals used in the group's operations. Leases are normally for 1-3 years, with a 1-2 year option.

Term deposit pledge against bank guarantee

The parent company has furnished a bank guarantee in place of a 5% retention on a supply contract, pledged against funds held on term deposit

Amount of term deposit pledged	202,390	202,390	202,390	202,390

32. CONTINGENCIES

Legal claim

On 13 August 2007, the company announced to the Australian Securities Exchange that it has received a Queensland Supreme Court claim for approximately $3 million in relation to an EMEW® plating and powder electrowinning plant supplied in 2002 to the Chilean company Molibdenos y Metales S.A. ("Molymet"). Electrometals intends to vigorously defend the action and believes it will be successful. The potential financial exposure cannot be assessed at the date of this report.

33. EVENTS AFTER THE BALANCE DATE

On 23 February 2009, the company announced the securing of a sales contact worth about $2,000,000 for the design, engineering, fabrication and installation of a water recycling system for a major UK manufacturer.

At the date of this report the directors are not aware of any other matters or circumstances which have arisen since 31 December 2008 that have significantly affected or may significantly affect:

1. the operations of the group in the financial years subsequent to 31 December 2008, or
2. the results of those operations, or
3. the state of affairs of the group in the financial years subsequent to 31 December 2008.

34. REMUNERATION OF AUDITORS

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Amounts received, or due and receivable by Ernst & Young for:				
Audit or review of the financial reports of the parent company	117,300	80,310	117,300	80,310
Additional fees – prior years	40,000	-	40,000	-
Other non-audit services	-	3,090	-	3,090
	157,300	83,400	157,300	83,400
Amounts received, or due and receivable by non Ernst & Young audit firms for:				
Audit or review of financial reports	42,167	-	-	-

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J Bastoni
BL Kelly

Company Secretaries
Colin Barker

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Stock Exchange Listing
Electrometals Technologies ordinary shares are listed on the Australian Securities Exchange (ASX Code: EMM)