

Appendix 4E

Preliminary final report

1. Details of reporting period

| | |
|-------------------------------|--------------------------------|
| Name of Entity | Eco Quest Limited |
| ABN | 98 104 037 372 |
| Reporting Period | Year ended 30 June 2010 |
| Previous Corresponding Period | Year ended 30 June 2009 |

2. Results for announcement to the market

| | | | | \$ |
|--|------|----------------------------|----|------------------------------------|
| Revenues from ordinary activities | down | 57.4% | to | 140,006 |
| Loss from ordinary activities after tax attributable to members | up | 45.9% | to | 2,116,125 |
| Net loss for the period attributable to members | up | 45.9% | to | 2,116,125 |
| | | Amount Per Security | | Franked Amount Per Security |
| Final Dividend | | Nil | | Nil |
| Interim Dividend | | Nil | | Nil |
| Previous Corresponding Period | | Nil | | Nil |
| Record Date for Determining Entitlements | | Not Applicable | | |

Brief explanation of any of the figures reported above necessary to enable figures to be understood:

Refer to commentary on results for the period and the review of operations shown in the attached financial statements for further explanation.

3. Statement of Comprehensive Income

See attached financial statements

4. Statement of Financial Position

See attached financial statements

5. Statement of Cash Flows

See attached financial statements

6. Dividends

No recommendation for a dividend for the year ended 30 June 2010 has been made.

7. Dividend reinvestment plans

There are no dividends reinvestment plans in place.

8. Retained earnings

Refer to the Statement of Changes in Equity in the attached financial statements.

9. Net tangible asset backing

| | 30 June 2010 | 30 June 2009 |
|--|---------------------|---------------------|
| Net tangible backing per ordinary security | 0.80 cents | 1.13 cents |

10. Details of entities over which control has been gained or lost during the period

Not applicable

11. Details of associate and joint venture entities

Not applicable

12. Any other significant information needed by an investor to make an informed assessment of the Company's financial performance and financial position

Refer to the attached financial statements.

13. Foreign entities

Not applicable.

14. Commentary on results for period

The Company's net loss from operations for the year was \$2,116,125 (2009: \$1,450,271). At 30 June 2010, the Company had a cash balance of \$627,615 (2009: \$1,005,023).

Operating Review

The Company has been investing in the commercialisation of its new disposable nappy and wipes products. The deposit for the Company's first order for a million nappies in our new Little Takas range has been placed for delivery in Australia in September 2010 so that selling to retail chains can commence in October 2010.

In September 2009, the Company appointed Ms Sylvia Tulloch to the Board as a Non-Executive Director and subsequently as Non-Executive Chairman, following the resignation of Mr Leon Davies in April 2010. In April 2010, the Company appointed Mr Stewart Pyrah as Executive Director – Sales and Marketing. In May 2010, the Company appointed Mr Stephen Moncur as Managing Director, with the former Managing Director, Mr Michael Greenup shifting to Executive Director – Operations and Procurement.

Marketing changes or initiatives

The Company appointed an Australian Sales and Marketing Manager, Mr Matt Hiscox, in April 2010 to establish distribution channels and market contacts for the Company's disposable nappy and wipes products. The focus on first developing the Australian market place has meant that international interest in our products has been placed as a second priority to ensure our resources have not been spread too wide. Subsequent to the year end the Company announced the appointment of Ms Elka Whalan as its ambassador for the Little Takas health and hygiene products in the Australian market. It also announced the appointment of Callidus to promote its Little Takas health and hygiene products and profile. In addition, the Company's artwork and packaging for its Little Takas health and hygiene products has been finalised and production orders initiated for the product

The Company's new website was developed during the latter part of the year and is now operational at www.ecoquestltd.com.au

Development of new products or ongoing R & D

The Company continued with its development programme, with an emphasis on also increasing the sustainability credentials of our products, while reducing manufacturing and materials costs. This process has been supported by the significant knowledge of, and input from, the new Managing Director, Mr Stephen Moncur.

15. Details of Annual General Meeting

| | |
|--------------|---|
| Date | Tuesday, 30 November 2010 |
| Place | The John De Baun Room, The Melbourne Hotel, Corner Hay and Milligan Streets, Perth, Western Australia, 6000 |
| Time | 2.30 pm |

This report has been based on accounts that have been subject to audit.



Sylvia Tulloch
Chairman

31 August 2010

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**ECO QUEST LIMITED
ACN 104 037 372**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2010**

CONTENTS

Page No

| | |
|---------------------------------------|----|
| CORPORATE DIRECTORY | 3 |
| DIRECTORS' REPORT | 4 |
| ReMUNERATION REPORT | 8 |
| CORPORATE GOVERNANCE STATEMENT | 11 |
| STATEMENT OF COMPREHENSIVE INCOME | 19 |
| STATEMENT OF FINANCIAL POSITION | 20 |
| Statement Of CHANGES IN EQUITY | 21 |
| STATEMENT OF CASH FLOWS | 22 |
| NOTES TO THE FINANCIAL STATEMENTS | 23 |
| DIRECTORS' DECLARATION | 39 |
| ADDITIONAL STOCK EXCHANGE INFORMATION | 40 |
| AUDITORS INDEPENDENCE DECLARATION | 42 |
| INDEPENDENT AUDIT REPORT | 43 |

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CORPORATE DIRECTORY

HEAD COMPANY: Eco Quest Limited

DIRECTORS: Sylvia Tulloch Non-Executive Chairman
Stephen Moncur Managing Director
Michael Greenup Executive Director
Stewart Pyrah Executive Director

COMPANY SECRETARY: Peter Webse

REGISTERED OFFICE: 1/66 Mill Point Road
South Perth, Western Australia 6151

International Call: +61 8 9277 7476
Facsimile: +61 8 9277 7472

SHARE REGISTRAR: Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross, Western Australia 6153

International Call: +61 8 9315 2333
Facsimile: +61 8 9315 2233

AUDITORS: K Westaway & Associates
Suite 7, 29 Hood Street
Subiaco, Western Australia 6008

SOLICITORS: Price Sierakowski
Level 24
44 St George's Terrace
Perth, Western Australia 6000

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DIRECTORS' REPORT

Your directors present their report on the Company for the year ended 30 June 2010.

Directors

The names of the Directors in office during or since the end of the previous financial year were:

Sylvia Tulloch (*appointed 16 September 2009*)
Stephen Moncur (*appointed 24 May 2010*)
Michael Greenup
Stewart Pyrah (*appointed 15 April 2010*)
Leon Davies (*resigned 15 April 2010*)
Sean O'Brien (*appointed 7 August 2009, resigned 8 October 2009*)
Jon Bloomfield (*resigned 6 August 2009*)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal Activities

The principal activity of the Company during the financial year was to progress the development of the biodegradable non-woven products, including nappies and wipes.

Dividends Paid or Recommended

No dividends have been declared or paid by the Company. The directors do not recommend the payment of a dividend.

Review of Operations

Operating Results

The Company's net loss from operations for the year was \$2,116,125 (2009: \$1,450,271). At 30 June 2010, the Company had a cash balance of \$627,615 (2009: \$1,005,023).

Operating Review

The Company has been investing in the commercialisation of its new disposable nappy and wipes products. The deposit for the Company's first order for a million nappies in our new Little Takas range has been placed for delivery in Australia in September 2010 so that selling to retail chains can commence in October 2010.

In September 2009, the Company appointed Ms Sylvia Tulloch to the Board as a Non-Executive Director and subsequently as Non-Executive Chairman, following the resignation of Mr Leon Davies in April 2010. In April 2010, the Company appointed Mr Stewart Pyrah as Executive Director – Sales and Marketing. In May 2010, the Company appointed Mr Stephen Moncur as Managing Director, with the former Managing Director, Mr Michael Greenup shifting to Executive Director – Operations and Procurement.

Marketing changes or initiatives

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DIRECTORS' REPORT

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the Company occurred during the financial year:

- i. On 18/9/2009 the Company issued 8,650,000 ordinary shares at \$0.10 each predominately to sophisticated investors.
- ii. On 1/12/2009 the Company issued 700,000 ordinary shares at \$0.10 each to Directors.
- iii. On 9/12/2009 the Company issued 100,000 ordinary shares at \$0.10 each to a former Director.
- iv. On 1/4/2010 the Company issued 7,251,364 ordinary shares at \$0.11 each predominately to sophisticated investors.

There were no other significant changes in the state of affairs of the Company during the financial year.

Matters Subsequent to the End of the Financial Year

On 31 August 2010, the Company advised that it had received firm commitments to subscribe for a total of 6,000,000 ordinary fully paid shares at \$0.08 per share to raise \$480,000 before costs from predominately sophisticated investors, with the placement expected to be completed by 3 September 2010.

Other than as outlined above, there have been no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect:

- the Company's operations in future years; or
- the results of those operations in future years; or
- the Company's state of affairs in future years.

Likely Developments, Prospects and Business Strategies

The Company will continue commercial production of biodegradable health and hygiene products and will also work towards greater sustainability of those products, with a strong emphasis on reducing the cost of goods to make the product more competitive and provide a greater return to shareholders.

Environmental Regulation

The Company is not subject to any significant environment regulation under Australian Commonwealth or State law.

Information on Directors

| | |
|--------------------------------------|---|
| Name: | Sylvia Tulloch |
| Title: | Non-Executive Chairman |
| Qualifications: | MSc. |
| Experience and expertise: | Board member since September 2009 and Chairman since June 2010. Sylvia, is a materials scientist with over twenty six years experience in the establishment and management of high technology businesses, and a particular interest in the commercialisation process and clean technology. Sylvia is experienced in the demands of public company governance, fund raising and investor relations. She was the founding Managing Director of Dyesol Limited and a founding Director of Sustainable Technologies Australia Limited. Sylvia has been active in government liaison, both at company and industry levels. She was formerly President of the Sustainable Energy Industries Association of Australia, Chair of the Renewable Energy Action Agenda Implementation Group and on the committee guiding the Australian Renewable Energy Technology Roadmap, and a Director of the Australian Business Council for Sustainable Energy. She is currently a member of the Future Manufacturing Industries Innovation Council, which advises the Australian Minister for Industry. Sylvia is the named inventor of several patents. |
| Other current directorships: | Non-Executive Director of Dyesol Limited (since October 2009) and previously Managing Director (2005 to 2008). |
| Former directorships (last 3 years): | None |
| Interest in shares: | 250,000 ordinary shares |
| Interest in options: | 500,000 |

DIRECTORS' REPORT (cont'd)

Information on Directors (cont'd)

Name: **Stephen Moncur**
Title: Managing Director
Qualifications: BA(Hons), ACMA
Experience and expertise: Appointed 24 May 2010. Stephen is the former head of the European operations of United States based Arquest Inc. Most recently he was operations director for Swedish based Naty AB, the largest eco-disposable nappy seller in Europe and Australia. He originally qualified as a chartered management accountant in the United Kingdom and developed a career with widespread commercial, strategic and operations management experience in the fast moving consumer goods (FMCG) industry. Stephen has been involved in the eco-nappy industry since 2002 and was credited with launching the first private label eco-nappy in the United Kingdom.

Other current directorships: None

Former directorships (last 3 years): None

Interest in shares: None

Interest in options: None

Name: **Michael Greenup**
Title: Executive Director – Operations and Procurement
Qualifications: Nil
Experience and expertise: Board member since September 2008. Michael has 36 years experience of owning and operating successful businesses, including 13 years consulting and sourcing in China and Malaysia and he possesses considerable commercial skills and attributes of value to the Company. He was Managing Director of Eco Quest Limited from October 2009 to May 2010. Michael was a director of Murray River North Pty Ltd, a construction company developing infrastructure for aboriginal communities in remote areas of Western Australia and the Northern Territory before founding Chaff City, an equine feed mill, which he developed to hold around two-thirds of the West Australian market before selling the business in 2007.

Other current directorships: None

Former directorships (last 3 years): Non-Executive Director of Coretrack Limited (from October 2009 to May 2010)

Interest in shares: 600,000 ordinary shares

Interest in options: 2,000,000 options over ordinary shares

Name: **Stewart Pyrah**
Title: Executive Director – Sales and Marketing
Qualifications: BA
Experience and expertise: Appointed 15 April 2010. Stewart has over 30 years experience gained in the blue chip FMCG sector. He was trained as a brand marketer by Nestle and Cussons. Stewart has held senior sales and marketing roles in FMCG both in the United Kingdom and internationally with brands such as Kit Kat, Polo, Imperial Leather and Foster Grant. He has also held managing director roles with PZ Cussons, Boots Contract Manufacturing and Foster Grant Europe. Stewart is a specialist in the health and beauty markets and new product development.

Other current directorships: None

Former directorships (last 3 years): None

Interest in shares: None

Interest in options: 6,000,000 options over ordinary shares

DIRECTORS' REPORT (cont'd)

Company Secretary

Peter Webse B.Bus, FCPA, FCIS, MAICD

Peter was appointed to the position of Company Secretary of Eco Quest Limited on 2 November 2009. He has over 20 years experience in similar company secretarial roles with listed companies. He is a consulting company secretary and provides services to a number of listed and unlisted companies.

Meetings of Directors

The number of meetings of the Company's Board of Directors held during the year ended 30 June 2010 and the number of meetings attended by each Director are as follows:

| | Number eligible to attend | Number Attended |
|-----------------|------------------------------|--------------------|
| Sylvia Tulloch | 10 | 10 |
| Stephen Moncur | 2 | 2 |
| Michael Greenup | 12 | 12 |
| Stewart Pyrah | 3 | 3 |
| Leon Davies | 10 | 9 |
| Sean O'Brien | 2 | 1 |
| John Bloomfield | 1 | 1 |

Share Options

At the date of this report, the unissued ordinary shares of Eco Quest Limited under option are as follows:

| Grant Date | Expiry Date | Exercise Price | Number under option |
|------------|-------------|-------------------|------------------------|
| 23/8/2007 | 30/11/2010 | \$0.20 | 500,000 |
| 20/2/2008 | 30/11/2010 | \$0.20 | 1,000,000 |
| 23/8/2007 | 31/12/2011 | \$0.20 | 10,000,000 |
| 4/12/08 | 31/3/2011 | \$0.20 | 22,602,749 |
| 1/12/2009 | 15/12/2012 | \$0.20 | 2,500,000 |
| 18/1/2010 | 29/7/2012 | \$0.20 | 1,000,000 |
| 18/1/2010 | 29/7/2012 | \$0.30 | 2,000,000 |
| 18/1/2010 | 29/7/2012 | \$0.40 | 1,000,000 |
| 18/1/2010 | 29/7/2012 | \$0.70 | 2,000,000 |
| | | | <u>42,602,749</u> |

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

Shares issued as a result of the exercise of options

During the financial year, there were no fully paid ordinary shares issued on the exercise of options.

DIRECTORS' REPORT (cont'd)

REMUNERATION REPORT

Remuneration Policy

Eco Quest Limited's Remuneration Policy, which is set out below, is designed to promote superior performance and long term commitment to the Company.

1. Non-Executive Director Remuneration

Non-Executive Directors are remunerated by way of fees, in the form of cash, non-cash benefits, superannuation contributions or salary sacrifice into equity and do not normally participate in schemes designed for the remuneration of executives.

Shareholder approval must be obtained in relation to the overall limit set for the Non-Executive Directors' fees. The maximum aggregate remuneration approved by shareholders for Non-Executive Directors is \$300,000 per annum. The Directors set the individual Non-Executive Director fees within the limit approved by shareholders.

2. Executive Remuneration

Executives and employees receive a base remuneration which is market related, and may be entitled to performance based remuneration, which is determined on an annual basis.

Overall remuneration policies are subject to the discretion of the Board and can be changed to reflect competitive and business conditions where it is in the interests of the Company and shareholders to do so.

Executive remuneration and other terms of employment are reviewed annually by the Board having regard to the performance, relevant comparative information and expert advice.

The Board's Remuneration Policy reflects its obligation to align executive remuneration with shareholder interests and to retain appropriately qualified executive talent for the benefit of the Company. The main principles are:

- (a) remuneration reflects the competitive market in which the Company operates;
- (b) individual remuneration should be linked to performance criteria if appropriate; and
- (c) executives should be rewarded for both financial and non-financial performance.

The total remuneration of executives consists of the following:

- (a) salary – executives receive a fixed sum payable monthly in cash;
- (b) cash at risk component – the executives may participate in share and option schemes generally made in accordance with thresholds set in plans approved by shareholders if deemed appropriate. However, the Board considers it appropriate to issue shares and options to executives outside of approved schemes in exceptional circumstances; and
- (c) other benefits – executives may, if deemed appropriate by the Board, be provided with a fully expensed mobile phone and other forms of remuneration.

3. Equity-Settled Compensation

The fair value of the equity which the employees are granted is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

DIRECTORS' REPORT (cont'd)

REMUNERATION REPORT (cont'd)

4. Service Agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: **Stephen Moncur**
Title: Managing Director
Agreement Commenced: 25 May 2010
Term of Agreement: 2 years
Details: Consultancy agreement with Longview International for Stephen Moncur's services as Managing Director. Longview International will be paid a consultancy fee of GBP 100,000 per annum. The consultancy fee is subject to review after 12 months. The consultancy agreement may be renewed for an additional 1 year period by agreement in writing between the parties no less than 60 days' prior to the end of the term. The consultancy agreement may be terminated by either party giving 6 months notice.

Name: **Michael Greenup**
Title: Director - Operations & Procurement
Agreement Commenced: 26 May 2010
Term of Agreement: 1 year
Details: Consultancy agreement with Todmor Nominees Pty Ltd trading as Global Marketing Technologies for Michael Greenup's services as Director - Operations and Procurement. Global Marketing Technologies will be paid a consultancy fee of \$192,000 per annum plus GST.

Name: **Stewart Pyrah**
Title: Director - Sales and Marketing
Agreement Commenced: 26 May 2010
Term of Agreement: Not subject to a fixed term
Details: Consultancy agreement with Greenswan Marketing for the Stewart Pyrah's services as Director - Sales and Marketing. Greenswan Marketing will be paid a consultancy fee of GBP 84,000 per annum. The consultancy agreement may be terminated by either party giving 3 months notice.

5. Details of Remuneration for the year ended 30 June 2010

| 2010 | Short-term | | | Post Employment | Equity | Total |
|-------------------------------|----------------|-----------|--------------|-----------------|----------------|----------------|
| | Salary & Fees | Allowance | Non Monetary | Superannuation | Options | |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Directors</i> | | | | | | |
| Sylvia Tulloch ⁽¹⁾ | 47,459 | - | - | - | 57,000 | 104,459 |
| Stephen Moncur ⁽²⁾ | 25,874 | - | - | - | - | 25,874 |
| Michael Greenup | 221,673 | - | - | - | 114,000 | 335,673 |
| Stewart Pyrah ⁽³⁾ | 62,474 | - | - | - | - | 62,474 |
| Leon Davies ⁽⁴⁾ | 55,208 | - | - | - | 114,000 | 169,208 |
| Sean O'Brien ⁽⁵⁾ | 25,633 | - | - | - | - | 25,633 |
| Jon Bloomfield ⁽⁶⁾ | 150,544 | - | - | 11,550 | - | 162,094 |
| Total | 588,865 | - | - | 11,550 | 285,000 | 885,415 |

(1) Appointed 15 September 2009

(2) Appointed 24 May 2010

(3) Appointed 15 April 2010

(4) Resigned 15 April 2010

(5) Appointed 7 August 2009, resigned 8 October 2009

(6) Resigned 6 August 2009

| 2009 | Short-term | | | Post Employment | Equity | Total |
|--------------------------------|----------------|-----------|--------------|-----------------|----------|----------------|
| | Salary & Fees | Allowance | Non Monetary | Superannuation | Options | |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Directors</i> | | | | | | |
| Jon Bloomfield ⁽¹⁾ | 220,000 | - | - | 19,800 | - | 239,800 |
| Cathryn Curtin ⁽²⁾ | 45,833 | - | - | - | - | 45,833 |
| Neal Milson ⁽³⁾ | 19,305 | - | - | - | - | 19,305 |
| Leon Davies | 50,000 | - | - | - | - | 50,000 |
| Michael Greenup ⁽⁴⁾ | 149,002 | - | - | - | - | 149,002 |
| Total | 484,140 | - | - | 19,800 | - | 503,940 |

(1) Resigned 6 August 2009

(2) Resigned 4 June 2009

(3) Resigned 19 November 2008

(4) Appointed 30 September 2008

DIRECTORS' REPORT (cont'd)

6. Options – Granted and vested during the year

Details of options granted to Key Management Personnel during the year ended 30 June 2010 are:

| Name | Grant Date | Expiry Date | Exercise Price | Value per option at grant date ⁽¹⁾ | First exercise date/vest date | Last exercise date | Number of options |
|-----------------|------------|-------------|----------------|---|-------------------------------|--------------------|-------------------|
| Sylvia Tulloch | 1/12/09 | 15/12/12 | \$0.20 | \$0.114 | 1/12/09 | 15/12/12 | 500,000 |
| Michael Greenup | 1/12/09 | 15/12/12 | \$0.20 | \$0.114 | 1/12/09 | 15/12/12 | 1,000,000 |
| Leon Davies | 1/12/09 | 15/12/12 | \$0.20 | \$0.114 | 1/12/09 | 15/12/12 | 1,000,000 |
| Stewart Pyrah | 18/1/10 | 29/7/12 | \$0.20 | \$0.065 | ⁽²⁾ | 29/7/012 | 1,000,000 |
| Stewart Pyrah | 18/1/10 | 29/7/12 | \$0.30 | \$0.036 | ⁽²⁾ | 29/7/012 | 2,000,000 |
| Stewart Pyrah | 18/1/10 | 29/7/12 | \$0.40 | \$0.007 | ⁽²⁾ | 29/7/012 | 1,000,000 |
| Stewart Pyrah | 18/1/10 | 29/7/12 | \$0.70 | \$0.001 | ⁽²⁾ | 29/7/012 | 2,000,000 |
| | | | | | | | 8,500,000 |

⁽¹⁾The fair values at grant date were determined using the Black-Scholes option pricing model that takes into account the exercise price, terms of options, the share price at issue date and expected price volatility of the underlying share and the risk free rate for the term of the option.

⁽²⁾The options vest on the date upon which the Company's 30 day Volume Weighted Average Price (VWAP) between the date of issue of the options and 29 July 2012 equals or exceeds the exercise price.

End of audited Remuneration Report

Indemnity and Insurance of Officers

The Company has indemnified the Directors and Company Secretary for costs incurred, in their capacity as officers, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and Company Secretary of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

The Auditor did not perform any non-audit services during the year.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 42.

This report is made in accordance with a resolution of the Directors made pursuant to section 298(2) of the Corporations Act 2001.

For and on behalf of the Directors



SYLVIA TULLOCH
Chairman

Perth, 31 August, 2010

Corporate Governance Statement

The Board of Directors of Eco Quest Limited (the "Company") is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Company has adopted systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this report. Commensurate with the spirit of the ASX Guidelines, the Company has followed each Recommendation where the Board has considered the Recommendation to be appropriate. Where, after due consideration, the Company's corporate governance practices depart from the Recommendations, the Board has offered full disclosure of the nature of, and reason for, the adoption of its own practice.

The table below summarises the Company's compliance with the Corporate Governance Council's Recommendations.

| | Recommendation | Comply Yes / No | Reference / Explanation |
|-----|--|----------------------------|------------------------------------|
| 1.1 | Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | Yes | Page 12 |
| 1.2 | Companies should disclose the process for evaluation the performance of senior executives. | Yes | Page 17 |
| 2.1 | A majority of the Board should be independent directors. | No | Page 18 |
| 2.2 | The chairperson should be an independent director. | Yes | Page 13 |
| 2.3 | The roles of chairperson and chief executive officer should not be exercised by the same individual. | Yes | Page 13 |
| 2.4 | The Board should establish a nomination committee. | No | Page 18 |
| 2.5 | Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. | Yes | Page 17 |
| 3.1 | Establish a code of conduct to guide the directors, the chief executive officer, the chief financial officer (or equivalent) and any other key executives as to: <ul style="list-style-type: none"> - the practices necessary to maintain confidence in the Company's integrity; - the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; - the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | Yes | Page 14 |
| 3.2 | Establish a policy concerning trading in Company securities by directors, senior executives and employees and disclose the policy or a summary of that policy. | Yes | Page 15 |
| 4.1 | The Board should establish an audit committee. | No | Page 18 |
| 4.2 | Structure the audit committee so that it consists of: <ul style="list-style-type: none"> - only non-executive directors; - a majority of independent directors; - an independent chairperson, who is not chairman of the Board; - at least three members. | No | Page 18 |
| 4.3 | The audit committee should have a formal charter. | No | Page 18 |
| 5.1 | Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. | Yes | Page 16 |
| 6.1 | Design a communications strategy to promote effective communications with shareholders and encourage effective participation at general meetings and disclose the policy or a summary of that policy. | Yes | Page 16 |
| 7.1 | The Board or appropriate Board committee should establish policies on risk oversight and management. | Yes | Page 16 |
| 7.2 | The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks. | Yes | Page 16 |
| 7.3 | Disclose whether the Board has received assurance from the CEO and CFO (or equivalent) that the declaration provided in accordance with CA section 295A is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | Yes | Page 16 |
| 8.1 | The Board should establish a remuneration committee. | No | Page 18 |
| 8.2 | Clearly distinguish the structure of non-executive directors' remuneration from that of executives. | Yes | Page 17 |

The Company's corporate governance practices were in place throughout the year ended 30 June 2010 unless stated otherwise.

Corporate Governance Statement (cont'd)

Further information about the Company's corporate governance practices is set out on the Company's website at www.ecoquest.com.au. In accordance with the recommendations of the ASX, information published on the Company's website includes charters (for the Board and its sub-committees), codes of conduct and other policies and procedures relating to the Board and its responsibilities.

1. Board of Directors

1.1 Role of the Board and Management

The Board represents shareholders' interests in developing and then continuing a successful business, which seeks to optimise medium to long-term financial gains for shareholders. By not focusing on short-term gains for shareholders, the Board believes that this will ultimately result in the interests of all stakeholders being appropriately addressed when making business decisions.

The Board is responsible for ensuring that the Company is managed in such a way to best achieve this desired result. Given the early development stage of this business, the Board currently undertakes an active, not passive role.

The Board is responsible for evaluating and setting the strategic directions for the Company, establishing goals for management and monitoring the achievement of these goals. The Managing Director is responsible to the Board for the day-to-day management of the Company.

The Board has sole responsibility for the following:

- Appointment, evaluation and, if necessary, removal of the Managing Director, any other executive directors, the Company Secretary and the Chief Financial Officer (if applicable) and approval of their remuneration;
- Determining, in conjunction with management, corporate strategy, objectives, operations, plans and approving and appropriately monitoring plans, new investments, major capital and operating expenditures, capital management, acquisitions, divestitures and major funding activities;
- Establishing appropriate levels of delegation to the Managing Director to allow the business to be managed efficiently;
- Approval of remuneration methodologies and systems;
- Monitoring actual performance against planned performance expectations and reviewing operating information at a requisite level to understand at all times the financial and operating conditions of the Company;
- Monitoring the performance of senior management, including the implementation of strategy and ensuring appropriate resources are available;
- Overseeing the management of business risks, safety, occupational health and environmental issues;
- Satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- Satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, risk management and internal control processes are in place and functioning appropriately;
- Assuring itself that appropriate audit arrangements are in place in relation to the Company's financial affairs;
- Authorising the issue of any shares, options, equity instruments or other securities within the constraints of the Corporations Act and the Australian Securities Exchange Listing Rules; and
- Ensuring that the Company acts legally and responsibly on all matters and assuring itself that the Company has adopted, and that its practice is consistent with, a number of guidelines including:
 - Directors' Code of Conduct;
 - Corporate Code of Conduct;
 - Securities Dealing Policy;
 - Remuneration Policy;
 - Shareholder Communications Policy;
 - Continuous Disclosure Policy; and
 - Risk Management Policy.

The Managing Director's responsibilities include the overall operational, business management and financial performance of the Company, whilst also managing the Company in accordance with the strategy, plans and policies approved by the Board to achieve agreed goals.

The Board's role and the Company's corporate governance practices are being continually reviewed and improved as the Company's business develops.

Corporate Governance Statement (cont'd)

1.2 Composition of the Board

The Company currently has the following Board members:

| | |
|--------------------|------------------------------------|
| Mrs Sylvia Tulloch | Independent Non Executive Chairman |
| Mr Stephen Moncur | Managing Director |
| Mr Michael Greenup | Executive Director |
| Mr Stewart Pyrah | Executive Director |

The Directors determine the size of the Board, with reference to the Company's Constitution and Board Charter, which provides that the number of Directors shall not be less than three and not more than seven. There is no requirement for any share holding qualification.

Information on the skills, experience and expertise relevant to the position of each Director who is in office at the date of the Annual Report and their term of office are detailed in the Directors' Report, together with details of the number of Board meetings held during the financial year and the attendance of the Directors at those meetings.

The Company has one independent Director, the Non-Executive Chairman, Ms Sylvia Tulloch, who was appointed to the Board on 16 September 2009 and to the role of Chairman on 17 June 2010, following the resignation of the Company's previous Independent Non-Executive Chairman, Mr Leon Davies on 15 April 2010. The Board considers Ms Tulloch to be independent as she is not a member of management and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the independent exercise of her judgement. Messrs Moncur, Greenup and Pyrah are not considered to be independent as they are Managing Director, Director – Operations and Procurement and Director -Sales and Marketing respectively. However, the Directors believe that the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues.

The Directors are satisfied that the structure of the Board is appropriate for the size of the Company, the nature of its operations and its current financial standing. The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities.

Directors are initially appointed by the full Board subject to election by shareholders at the next annual general meeting. No member of the Board, other than the Managing Director, may serve for more than three years or past the third annual general meeting following their appointment, whichever is the longer, without being re-elected by the shareholders. Prior to the Board proposing re-election of Directors, their performance is evaluated by the Board to ensure that they continue to contribute effectively to the Board. Nominations for appointment to the Board are considered by the Board as a whole and with the objective to ensure that the Board comprises Directors with a mix of qualifications, experience and expertise which will assist the Board in fulfilling its responsibilities, as well as assisting the Company in achieving growth and delivering value to shareholders.

Subject to the requirements of the Corporations Act 2001, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a Director. A Managing Director may be appointed for any period and on any terms the Directors think fit and, subject to the terms of any agreement entered into, the Board may revoke any appointment.

Due to the nature and size of the Company a Remuneration and Nomination Committee has not been established. As the Company grows the Board, which at present conducts the committees functions, will establish a Remuneration and Nomination Committee in line with best practice principles. Where appropriate, independent consultants may be engaged to identify possible new candidates for the Board.

The appointment of the Company Secretary is a matter for the Board. Information on the skills, experience and qualifications of the Company Secretary can be found in the Directors Report.

The Company's Board Charter is available on its website.

Corporate Governance Statement (cont'd)

1.3 Committees of the Board

The Board does not have any committees to assist in carrying out its responsibilities as the Company is not yet of sufficient size to warrant establishing additional committees.

The Board intends to establish an audit committee when it is considered appropriate considering the size and financial affairs of the Company and when the services of an appropriate chairperson for the audit committee become available. The responsibilities normally associated with an audit committee are currently performed by the full Board.

As stated above, the Board will establish a Remuneration and Nomination Committee in line with best practice principles when the size and composition of the Company warrants this.

1.4 Conflicts of Interest

In accordance with the Corporations Act 2001 and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

1.5 Independent Professional Advice

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all Board members.

2. Ethical Standards

The Board acknowledges the need for continued maintenance of the highest standard of corporate governance practice and ethical conduct by all Directors and employees of the Company.

2.1 Directors' Code of Conduct

The Board has adopted a Directors' Code of Conduct to promote ethical and responsible decision-making by the Directors. The code is based on a code of conduct for Directors prepared by the Australian Institute of Company Directors.

The principles of the code are:

- A Director must act honestly, in good faith and in the best interests of the Company as a whole.
- A Director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
- A Director must use the powers of office for a proper purpose and in the best interests of the Company as a whole.
- A Director must recognise that the primary responsibility is to the Company's shareholders as a whole but should, where appropriate, have regard for the interest of all stakeholders of the Company.
- A Director must not make improper use of information acquired as a Director.
- A Director must not take improper advantage of the position of Director.
- A Director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the Company.
- A Director has an obligation to be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board.
- Confidential information received by a Director in the course of the exercise of directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company, or the person from whom the information is provided, or is required by law.
- A Director should not engage in conduct likely to bring discredit upon the Company.
- A Director has an obligation at all times, to comply with the spirit, as well as the letter of the law and with the principles of the Code.
- A Director has an obligation, at all times, to adhere to the policies of the Company.

The principles are supported by guidelines as set out by the Australian Institute of Company Directors for their interpretation. Directors are also obliged to comply with the Company's Corporate Code of Conduct, as outlined below.

The Company's Directors' Code of Conduct is available on its website.

2.2 Corporate Code of Conduct

The Company has implemented a Corporate Code of Conduct, which provides guidelines aimed at maintaining high ethical standards, corporate behaviour and accountability within the Company.

Corporate Governance Statement (cont'd)

All employees and Directors are expected to:

- respect the law and act in accordance with it;
- maintain high levels of professional conduct;
- respect confidentiality and not misuse Company information, assets or facilities;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the Company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity, decency and responsibility at all times.

An employee that breaches the Corporate Code of Conduct may face disciplinary action including, in the cases of serious breaches, dismissal. If an employee suspects that a breach of the Corporate Code of Conduct has occurred or will occur, he or she must report that breach to the Company Secretary. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be acted upon and kept confidential.

The Company's Corporate Code of Conduct is available on its website.

2.3 Dealings in Company Securities

The Company has a Security Dealings Policy regarding Directors, Officers, Employees and Consultants of the Company trading in its securities. The purpose of the Policy is to provide a brief summary of the insider trading laws and other relevant laws, set out the restrictions on dealing in securities by people who work for or who are associated with the Company and to assist in maintaining market confidence in the integrity of dealings in the Company's securities.

Wherever a Director, Officer, Employee or Consultant of the Company has inside information which may affect the value of the Company's securities, they must not:

- deal in those securities; or
- communicate the information to anyone else.

This prohibition applies regardless of how the Director, Officer, Employee or Consultant learns the information (eg. even if the employee or Director overhears it or is told in a social setting).

In broad terms, a Director, Officer, Employee or Consultant will commit insider trading if they:

- deal in the Company's securities or securities in another entity while they have insider information;
- communicate insider information to another person knowing (or where they should reasonably have known) that the other person would, or would be likely to, use that information to deal in, or procure someone else to deal in, securities.

Inside information is information that:

- is not generally available to people who commonly invest in securities; and
- if it was generally available, would or would be likely to influence experienced investors in deciding whether or not to subscribe for, purchase or sell the Company's securities

The definition of information is broad enough to include rumours, matters of supposition, intentions of a person (including the Company) and information that is not definitive enough to warrant public disclosure.

The time for any Director, Officer, Employee or Consultant to buy or sell the Company's securities is limited to the four week period from the:

- date of the Company's Annual General Meeting;
- release of the quarterly results announcement to the Australian Stock Exchange (ASX);
- release of the half-year results announcement to the ASX;
- release of the preliminary final results announcement to the ASX; or
- release of a disclosure document offering securities in the Company.

Directors must not trade in the Company's securities in the periods set out above without first obtaining the prior written approval of the Chairman. The Chairman must not trade without the prior written approval of the other Directors. Employees and Contractors must obtain the prior written approval of the Managing Director.

In addition to the above, Directors must notify the Company Secretary as soon as practicable, but not later than 2 business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the Corporations Act and the Listing rules of the ASX, the Company on behalf of the Directors must advise the ASX of any transactions conducted by them in the securities of the Company.

Corporate Governance Statement (cont'd)

Directors and executives who participate in equity based incentive schemes are prohibited from entering into any transaction that would have the effect of hedging or otherwise transferring the risk of any fluctuation in the value of any unvested entitlement in the Company's securities to any other person.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment.

The Company's Security Dealings Policy is available on its website.

3. Disclosure of Information

3.1 Continuous Disclosure to ASX

The Company's Continuous Disclosure Policy sets out the obligations under the ASX Listing Rules and the Corporations Act for all Directors and employees in relation to continuous disclosure and the type of information that requires disclosure. The Policy also provides procedures for internal notification and external disclosure, as well as procedures promoting understanding of compliance with the disclosure requirements and for monitoring compliance.

In addition, the Board considers whether there are any matters requiring disclosure in respect of each and every item of business that it considers in its meetings. Individual Directors are required to make such a consideration when they become aware of any information in the course of their duties as a Director of the Company.

The Managing Director is the person primarily responsible for ensuring that the Company complies with its continuous disclosure obligations. The Company Secretary is responsible for all communications with ASX.

The Company's Continuous Disclosure Policy is available on its website.

3.2 Communication with Shareholders

The Company has a Shareholder Communications Policy which has been designed to promote effective communication with shareholders and encourage shareholder participation at annual general meetings.

The Company's Policy requires that shareholders are informed of all major developments that impact on the Company. The Managing Director has primary responsibility for communication with shareholders.

Information is communicated to shareholders through:

- distribution of the half-yearly and annual reports (in hardcopy when requested) via the Company's web site;
- ASX Quarterly Cash Flow Reports which are placed on the Company's web site;
- disclosures and announcements made to the ASX, which are placed on the Company's web site;
- notices and explanatory memoranda of Annual General Meetings and General Meetings;
- presentations at the Annual General Meeting/General Meetings; and
- the Company's web site www.ecoquestltd.com.au.

The Company's Shareholder Communications Policy is available on its website.

4. Risk Management

The Board is responsible for the oversight of the Company's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Managing Director having ultimate responsibility to the Board for the risk management and control framework.

The Company's process of risk assessment and management is based on the international standard "AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines" and includes:

- identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect those risks.
- formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls.
- monitoring the performance of, and improving the effectiveness of, risk management systems and internal compliance and controls, including regular assessment of the effectiveness of risk management and internal compliance and control.

When considering its review of the Company's financial reports, the Board receives a written statement from the Managing Director and an external consultant, that the Company's financial reports give a true and fair view, in all material respects, of the Company's financial position and comply in all material respects with relevant accounting standards. The statement also confirms that the Company's financial statements are founded on a sound system of risk management and internal control and that the system is operating efficiently in all material respects in relation to financial reporting risks.

Corporate Governance Statement (cont'd)

The Company's practice is to invite the auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Management has reported to the Board as to the Company's management of its material business risks.

As the Company moves toward commercialisation of its products, the Board, in conjunction with management, has considered it appropriate to review the effectiveness of the Company's risk management and internal compliance and control.

A summary of the Company's policies on risk management is available on its website.

4. Remuneration and Performance

4.1 Board Performance and Remuneration

The Board conducts an annual review of the role of the Board, assessing its performance over the previous 12 months and examining ways of assisting the Board in performing its duties more effectively.

The annual review includes consideration of the following measures:

- comparing the performance of the Board against the requirements of its Charter;
- assessing the performance of the Board over the previous 12 months having regard to the corporate strategies, operating plans and the annual budget;
- reviewing the Board's interaction with management;
- reviewing the type and timing of information provided to the Board by management;
- reviewing management's performance in assisting the Board to meet its objectives; and
- identifying any necessary or desirable improvements to the Board Charter.

The method and scope of the performance evaluation will be set by the Board and may include a Board self-assessment checklist to be completed by each Director. The Board may also use an independent adviser to assist in the review.

The Chairman will have primary responsibility for conducting performance appraisals of non-executive Directors, in conjunction with them, having particular regard to:

- contribution to Board discussion and function;
- degree of independence including relevance of any conflicts of interest;
- availability for and attendance at Board meetings and other relevant events;
- contribution to Company strategy;
- membership of and contribution to any Board committees; and
- suitability to Board structure and composition.

There was no formal performance review of the Board during the financial year due to the substantial change in composition of the Board, including a change in Chairman, during that period. A performance review of the Board will be conducted in the 2011 financial year.

Non-Executive Directors receive fees (including statutory superannuation where applicable) for their services, the reimbursement of reasonable expenses and, in certain circumstances options. They do not receive any termination or retirement benefits, other than statutory superannuation.

The maximum aggregate remuneration approved by shareholders for Non-Executive Directors is \$300,000 per annum. The Directors set the individual Non-Executive Directors fees within the limit approved by shareholders.

The total fees paid to Non-Executive Directors during the reporting period was \$128,300.

4.2 Executive Performance and Remuneration

The Board will annually review the performance of the Managing Director and other Executive Directors. At the commencement of each financial year, the Board and Managing Director will agree a set of generally Company specific performance measures to be used in the review of the forthcoming year.

These will include:

- (a) financial measures of the Company's performance;
- (b) the extent to which key operational goals and strategic objectives are achieved;
- (c) development of management and staff;
- (d) compliance with legal and Company policy requirements; and
- (e) achievement of key performance indicators.

The Managing Director is responsible for assessing the performance of the senior executives within the Company which directly report to him. This is to be performed through a formal performance appraisal process and measured against key performance indicators, including the business performance of the Company, and agreed at the beginning of each financial year.

Corporate Governance Statement (cont'd)

A formal evaluation of the performance of the Managing Director was not conducted during the financial year due to changes in personnel, with the current Managing Director not appointed until 24 May 2010. In addition, there was no formal evaluation of the Executive Directors conducted during the financial year due to changes in appointments that took place in April and May 2010. The Company has no senior executives who are not Executive Directors.

The Company's remuneration policy is designed to promote superior performance and long term commitment to the Company. Executives and employees receive a base remuneration which is market related, and may be entitled to performance based remuneration which is determined on an annual basis.

Overall remuneration policies are subject to the discretion of the Board and can be changed to reflect competitive and business conditions where it is in the interests of the Company and shareholders to do so.

Executive remuneration and other terms of employment are reviewed annually by the Board having regard to the performance, relevant comparative information and expert advice.

The Board's remuneration policy reflects its obligation to align executive remuneration with shareholder interests and to retain appropriately qualified executive talent for the benefit of the Company. The main principles of the policy are:

- remuneration reflects the competitive market in which the Company operates;
- individual remuneration should be linked to performance criteria if appropriate; and
- executives should be rewarded for both financial and non-financial performance.

The total remuneration of executives consists of the following:

- (a) salary – executives receive a fixed sum payable monthly in cash;
- (b) cash at risk component – the executives are eligible to participate in a cash bonus plan if deemed appropriate;
- (c) share and option at risk component – executives may participate in share and option schemes generally made in accordance with thresholds set in plans approved by shareholders if deemed appropriate. However, the Board considers it appropriate to retain flexibility to issue shares and options to executives outside of approved schemes in exceptional circumstances; and
- (d) other benefits – executives may, if deemed appropriate by the Board, be provided with a fully expensed mobile phone and other forms of remuneration.

The Company's Performance and Remuneration Policies are available on its website.

Compliance with ASX Corporate Governance Recommendations

During the Company's 2010 financial year ("Reporting Period") the Company complied with the ASX Principles and Recommendations other than in relation to the matters specified below.

| Principle Ref | Recom- mendation Ref | Notification of Departure | Explanation for Departure |
|---------------|-------------------------|---|---|
| 2 | 2.1 | The Board was not comprised of a majority of independent Directors. | The Directors are satisfied that the structure of the Board is appropriate for the size of the Company, the developing nature of its operations, impending commercialisation of its product and its current financial standing. The structure and composition of the Board is subject to ongoing review. |
| 2.8 | 2.4, 8.1 | A separate Remuneration and Nomination Committee has not been formed. | The Board considers that the Company is not of sufficient size to justify a separate Remuneration and Nomination Committee. As the Company grows the Board will establish a Remuneration and Nomination Committee in line with best practice principles. At the present time the Board carries out these functions. |
| 4 | 4.1 – 4.3 | A separate Audit Committee has not been formed. | The Board considers that the Company is not of sufficient size, nor are its financial affairs of such complexity to justify the formation of an audit committee. The Board as a whole has up to this date undertaken the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems. As the Company's activities change in size, scope and nature, the appointment of an audit committee will be considered by the Board. |

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010**

| | Note | 2010 \$ | 2009 \$ |
|---|-------|--------------------|--------------------|
| Revenue | 4 | - | - |
| Other income | 4 | 140,006 | 328,259 |
| Cost of sales | | (339,835) | (10,126) |
| Product development expenses | | (66,942) | (48,479) |
| Employee benefits expenses | | (502,026) | (585,754) |
| Depreciation and amortisation | | (3,022) | (4,520) |
| Share based payment expense | 19(b) | (430,200) | - |
| Termination of distributorship legal fees and settlement | | - | (390,741) |
| Borrowing costs | | (10,620) | (11,890) |
| Corporate, market development & supply chain management expenses | | (903,486) | (727,020) |
| Loss before income tax expense | | (2,116,125) | (1,450,271) |
| Income tax expense | 20 | - | - |
| Total loss attributable to members of Eco Quest Limited | 11 | (2,116,125) | (1,450,271) |
| | | | |
| Basic and diluted loss per share (cents) | 21 | (2.75) | (2.14) |

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes

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**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010**

| | Note | 2010 \$ | 2009 \$ |
|----------------------------------|------|------------------|------------------|
| Current Assets | | | |
| Cash and cash equivalents | 5(a) | 627,615 | 1,005,023 |
| Trade and other receivables | 6 | 344,345 | 219,284 |
| Total Current Assets | | 971,960 | 1,224,307 |
| Non-current Assets | | | |
| Property, plant and equipment | 7 | 20,449 | 2,289 |
| Intangible assets | 8 | 256,407 | 193,641 |
| Total Non-current Assets | | 276,856 | 195,930 |
| TOTAL ASSETS | | 1,248,816 | 1,420,237 |
| Current Liabilities | | | |
| Payables | 9 | 314,765 | 407,809 |
| Other liabilities | 9 | 2,046 | 50,448 |
| Total Current Liabilities | | 316,811 | 458,257 |
| TOTAL LIABILITIES | | 316,811 | 458,257 |
| NET ASSETS | | 932,005 | 961,980 |
| Equity | | | |
| Issued capital | 10 | 6,968,457 | 5,514,088 |
| Options Reserve | 19 | 1,179,890 | 548,109 |
| Accumulated losses | 11 | (7,216,342) | (5,100,217) |
| TOTAL EQUITY | | 932,005 | 961,980 |

The above Statement of Financial Position should be read in conjunction with the accompanying notes

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**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010**

Year ended 30 June 2010

| | Issued Capital \$ | Option Reserve \$ | Accumulated losses \$ | TOTAL \$ |
|---|-------------------------|-------------------------|-----------------------------|-------------|
| Balance at beginning of the financial year | 5,514,507 | 5487,109 | (5,100,217) | 961,980 |
| Issues of shares, net of capital raising Costs | 1,655,950 | - | - | 1,655,950 |
| Reclassification of Options issued | (201,581) | 201,581 | - | - |
| Options Reserve (Share based payments) | - | 430,200 | - | 430,200 |
| Loss for the year | - | - | (2,116,125) | (2,116,125) |
| | 6,968,457 | 1,179,890 | (7,216,342) | 932,005 |

Year ended 30 June 2009

| | Issued Capital \$ | Option Reserve \$ | Accumulated losses \$ | TOTAL \$ |
|--|-------------------------|-------------------------|-----------------------------|-------------|
| Balance at beginning of the financial year | 5,312,507 | 548,109 | (3,649,946) | 2,210,670 |
| Issues of options, net of capital raising costs | 201,581 | - | - | 201,581 |
| Loss for the year | - | - | (1,450,271) | (1,450,271) |
| | 5,514,088 | 548,109 | (5,100,217) | 961,980 |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010**

| | Note | 2010 \$ | 2009 \$ |
|---|------|-----------------------|-------------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 115,751 | 105,689 |
| Payments to suppliers and employees | | (2,087,218) | (1,399,366) |
| Interest received | | 25,844 | 76,168 |
| Security deposits paid | | (7,500) | - |
| Net cash flows used in operating activities | 5(b) | <u>(1,953,123)</u> | <u>(1,217,509)</u> |
| Cash flows from Investing Activities | | | |
| Payments for Intangibles | | (67,977) | (57,967) |
| Proceeds from sale of Plant & Equipment | | 281 | 1,700 |
| Purchases of Plant & Equipment | | (23,144) | (2,197) |
| Net cash flows used in investing activities | | <u>(90,840)</u> | <u>(58,464)</u> |
| Cash Flow From Financing Activities | | | |
| Proceeds from Borrowings | | 26,913 | - |
| Repayment of Borrowings | | (16,308) | - |
| Issued & Paid up Capital | | 1,655,950 | 201,581 |
| Net cash flows from Financing activities | | <u>1,666,555</u> | <u>201,581</u> |
| Net Increase/decrease for the period | | (377,408) | (1,074,392) |
| Cash and cash equivalents at the beginning of the financial year | | <u>1,005,023</u> | <u>2,079,415</u> |
| Cash and cash equivalents at the end of the financial year | 5(a) | <u>627,615</u> | <u>1,005,023</u> |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes

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NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards, Australian Accounting Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the Company comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 31 August 2010.

Basis of preparation

Going concern

Based upon the Company's existing cash resources, the ability to modify expenditure outlays if required, the Directors' confidence of sourcing additional funds, the Directors consider that there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and therefore the going concern basis of preparation to be appropriate for the preparation of the Company's 2010 financial report.

The financial report also has been prepared on an accrual basis and is based on historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report for the year ended 30 June 2010 and the comparative information presented in these financial statements for the year ended 30 June 2009.

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(b) Employee Benefits

Wages, salaries and annual leave

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

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future salaries, 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 to maturity and currency that match, as closely as possible, the estimated future cash outflows.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(c) **Financial Assets**

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by Key Management Personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

(d) **Foreign currency**

The financial statements are presented in Australian Dollars which is the company's functional and presentation currency. All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

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

(e) **Government grants**

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(f) **Impairment of assets**

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(g) **Income tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax related to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (cont'd)

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(h) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

(i) Trade and other payables

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

(j) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(k) Recoverable amount of Non-Current assets

The carrying amounts of non-current assets are reviewed annually by Directors to ensure they are not in excess of the recoverable amounts from those assets. The recoverable amount is assessed on the basis of the expected net cash flows, which will be received from the assets employed and subsequent disposal. The expected net cash flows are discounted to present values in determining recoverable amounts.

(l) Plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable less any accumulated depreciation and impairment losses. Plant and equipment are measured at cost of acquisition. The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the Company commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

| <i>Class of Fixed Asset</i> | <i>Depreciation Rate</i> |
|-----------------------------|--------------------------|
| Office Equipment | 25% |
| Computer Software | 40% |

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NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(m) Intangible assets

Trademarks and Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the trademarks and patents over their estimated useful lives, which vary from 3 – 5 years. Amortisation commences once commercial production of the products commence.

(n) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholder's equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

The Company as at 30 June 2010 has no commitment to any external borrowings.

(o) Borrowing costs

Borrowing costs are recognised as an expense when incurred except if costs were incurred for the construction of any qualifying asset, where the costs are capitalised over the period that is required to complete and prepare the asset for its intended use or sale.

(p) GST

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case, it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the tax authority are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

(q) Provisions

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized 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.

If the effect of the time value of money being material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(r) **Inventories**

Inventories comprise of raw materials, work in progress and finished goods and are valued at the lower of cost and net realisable value. Costs are allocated on a first in first out basis or average cost basis. Costs include direct labour, direct materials and an appropriate amount of fixed and variable overhead expenses. Stock of finished clothing is written off over a three year period from the time of manufacture.

Certain inventories are held for long term for future fashion displays and presentations and have been treated as Non-Current. Stocks of sample collections are considered to have a five year life and are held in inventory for two years and then written off over the remaining three years.

(s) **Revenue recognition**

Revenue representing interest income is recognised on a proportional basis taking into account the interest rates applicable to financial assets. Revenue from the sale of inventories is recognised when the goods are delivered to the customer and title passes to the customer. Refer note (f) relating to recognition of grant income.

(t) **Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(u) **Equity based compensation**

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value of options is ascertained using a Black-Scholes Pricing Model which incorporates all market vesting conditions. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of shares of Eco Quest Limited ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being made as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

(v) **Research, design and development costs**

Research, Design and Development costs are expensed as incurred.

(w) **Issued capital**

Issued capital is recognised at the fair value of the consideration received by the Company. Any transaction costs on the issue of shares are recognised directly in equity as a reduction of the share proceeds received.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(x) **Earnings per share**

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary share and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(y) **Significant accounting judgements, estimates and assumptions**

In the application of A-IFRS management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

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

Judgements made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Company has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Company follows:

- AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Company has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- Removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (cont'd)

- Allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends paid in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- Reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on
 - a. the objective of the entity' business model for managing the financial assets; and
 - b. the characteristics of the contractual cash flows.

- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011)

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Company.

- AASB 2009-4: Amendments to "Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Company.

- AASB 2009-8: Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for group cash-settlement share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact on the Company.

- AASB 2009-9: Amendments to Australian Accounting Standards – Additional Exemptions for First Time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Company.

- AASB 2009-10: Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class or its own non-derivative instruments. These amendments are not expected to impact on the Company.

NOTES TO THE FINANCIAL STATEMENTS

2 ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (cont'd)

- AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 100, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Company.

- AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Company.

- AASB 2009-14: Amendments to Australian Interpretation – Payments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

- AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

The interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Company.

The Company does not anticipate the early adoption of any of the above Australian Accounting Standards.

3. SEGMENT REPORTING

The Company operates in Australia in the wholesale and retail sector.

| 4. REVENUE | 2010 \$ | 2009 \$ |
|---|----------------|----------------|
| Sales of goods and services | - | - |
| Proceeds from sale of plant and equipment | 282 | 1,700 |
| Net Foreign Currency Gain | - | 38,513 |
| Interest revenue | 25,845 | 76,168 |
| Other revenue | 113,879 | 211,878 |
| | <u>140,006</u> | <u>328,259</u> |

NOTES TO THE FINANCIAL STATEMENTS

5. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of cash and cash equivalents

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

| | | |
|---------------|---------|-----------|
| Term Deposits | 515,990 | 956,971 |
| Cash at bank | 111,625 | 48,052 |
| | 627,615 | 1,005,023 |

(b) Reconciliation of loss for the period to net cash flows from operating activities

| | | |
|---|--------------------|--------------------|
| Loss for the year | (2,116,125) | (1,450,271) |
| Non-cash adjustments | | |
| Depreciation and amortisation | 3,023 | 4,520 |
| Loss on sale of Plant and Equipment | 1,680 | 4,461 |
| Write-off Website Development costs | 5,211 | - |
| Working Capital Movements | | |
| (Increase) in receivables | (125,061) | (119,435) |
| (Increase) in other current assets | - | 1,837 |
| (Decrease) in payables | (103,649) | 316,657 |
| (Decrease) in provisions | (48,402) | 24,722 |
| Share Based Payments | 430,200 | - |
| Net Cash Flow from Operating Activities | (1,953,123) | (1,217,509) |

6. CURRENT TRADE AND OTHER RECEIVABLES

| | 2010 | 2009 |
|------------------------|---------|---------|
| | \$ | \$ |
| Trade receivables | 2,230 | 4,551 |
| Security deposits made | 160,535 | 82,961 |
| Other receivables | 181,580 | 131,772 |
| | 344,345 | 219,284 |

NOTES TO THE FINANCIAL STATEMENTS

| | 2010 | 2009 |
|---|--------------------|--------------------|
| | \$ | \$ |
| 7. PROPERTY, PLANT AND EQUIPMENT | | |
| Plant and equipment | | |
| Gross carrying amount | | |
| Balance at the beginning of the financial year at cost | 4,480 | 11,974 |
| Additions | 23,144 | 2,197 |
| Disposals | (4,480) | (9,691) |
| Balance at the end of the financial year at cost | 23,144 | 4,480 |
| Accumulated depreciation | | |
| Balance at the beginning of the financial year | (2,191) | (4,676) |
| Disposals – accumulated depreciation | 2,518 | 3,129 |
| Depreciation expense | (3,022) | (644) |
| Net carrying amount at the end of the financial year | (2,695) | (2,191) |
| Balance at the end of the financial year | 20,449 | 2,289 |
| 8. INTANGIBLE ASSETS | | |
| Patents & Trademarks – cost | 256,407 | 188,430 |
| Web Site development expenditure | - | 5,211 |
| | 256,407 | 193,641 |
| 9. CURRENT TRADE AND OTHER PAYABLES | | |
| Trade Payables | 60,191 | 9,622 |
| Accruals | 249,996 | 356,250 |
| PAYG Withholding | 4,578 | - |
| Deposits received | - | 41,937 |
| | 314,765 | 407,809 |
| Employee Entitlements | 2,046 | 20,448 |
| Provision for legal fees | - | 30,000 |
| | 2,046 | 50,448 |
| 10. ISSUED CAPITAL | | |
| 84,509,612 fully paid ordinary shares (2009: 67,808,248) | 6,968,457 | 5,514,088 |
| Fully paid ordinary shares | No. | \$ |
| Balance at beginning of financial year | 67,808,248 | 5,514,088 |
| Shares issued during the period: | 16,701,364 | 1,742,650 |
| Reclassification of options issue pursuant to rights issue | - | (201,581) |
| Issue costs | - | (86,700) |
| Balance at end of financial year | 84,509,612 | 6,968,457 |
| | 2010 | 2009 |
| | \$ | \$ |
| 11. ACCUMULATED LOSSES | | |
| Balance at the beginning of year | (5,100,217) | (3,649,946) |
| Net loss attributable to members of the Entity | (2,116,125) | (1,450,271) |
| Balance at end of year | (7,216,342) | (5,100,217) |

NOTES TO THE FINANCIAL STATEMENTS

12. KEY MANAGEMENT PERSONNEL REMUNERATION

Refer to the audited Remuneration Report, included in the Directors' Report, for information on Key Management Personnel.

There have been no transactions with Key Management Personnel other than those disclosed in the audited Remuneration Report.

13. RELATED PARTY DISCLOSURES

(a) Key management personnel remuneration

Details of Key Management Personnel remuneration are disclosed in Note 12 to the financial statements.

(b) Key Management Personnel equity holdings

Fully Paid Ordinary Shares:

2010

| Director | Shares | | | | Options | | | |
|-----------------|--------------------------------|----------|---------------------------------|--------------------------|--------------------------------|-----------|---------------------------------|--------------------------|
| | Balance at beginning of period | Acquired | Net change other ⁽¹⁾ | Balance at end of period | Balance at beginning of period | Acquired | Net change other ⁽¹⁾ | Balance at end of period |
| Sylvia Tulloch | - | 250,000 | - | 250,000 | - | 500,000 | - | 500,000 |
| Stephen Moncur | - | - | - | - | - | - | - | - |
| Michael Greenup | 520,000 | 80,000 | - | 600,000 | 1,000,000 | 1,000,000 | - | 2,000,000 |
| Stewart Pyrah | - | - | - | - | - | 6,000,000 | - | 6,000,000 |
| Leon Davies | 2,468,800 | 668,161 | (3,136,961) | - | 4,726,666 | 1,000,000 | (5,726,666) | - |
| Jon Bloomfield | 315,000 | - | (315,000) | - | 1,102,110 | - | (1,102,110) | - |
| Sean O'Brien | - | 100,000 | (100,000) | - | - | - | - | - |

2009

| Director | Shares | | | | Options | | | |
|-----------------|--------------------------------|----------|---------------------------------|--------------------------|--------------------------------|-----------|---------------------------------|--------------------------|
| | Balance at beginning of period | Acquired | Net change other ⁽¹⁾ | Balance at end of period | Balance at beginning of period | Acquired | Net change other ⁽¹⁾ | Balance at end of period |
| Leon Davies | 2,318,800 | 150,000 | - | 2,468,800 | - | 4,726,666 | - | 4,726,666 |
| Neal Milson | 250,000 | - | (250,000) | - | - | - | - | - |
| Cathryn Curtin | 250,000 | - | (250,000) | - | - | 83,833 | (83,833) | - |
| Michael Greenup | - | 520,000 | - | 520,000 | - | 1,000,000 | - | 1,000,000 |
| Jon Bloomfield | 15,000 | 300,000 | - | 315,000 | 1,000,000 | 1,102,110 | - | 1,102,110 |

(1) Holding at time of appointment or resignation. The directors upon their resignation become ordinary shareholders/option holders if they still hold shares/options in the Company and therefore such shares/options are taken out from the above schedules, which only represent the shares/options held by directors.

NOTES TO THE FINANCIAL STATEMENTS

| | 2010 \$ | 2009 \$ |
|---|------------|------------|
| 14. REMUNERATION OF AUDITORS | | |
| Audit or review of the financial report | 27,455 | 30,250 |
| Other non-audit services | - | - |
| | 27,455 | 30,250 |
| | 27,455 | 30,250 |

15. FINANCIAL INSTRUMENTS

(a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(b) Interest rate risk management

The Company is exposed to interest rate risk as it invests funds in term deposits at fixed interest rates. The table below summarises the sensitivity of the Companies financial assets to interest rate risk.

| | Interest Rate Risk -1% | | | Interest Rate Risk +1% | |
|--|---------------------------|----------------|--------------|---------------------------|--------------|
| Financial Assets – held at 30 June 2010 | Carrying Amount \$ | Net Loss \$ | Equity \$ | Net Gain \$ | Equity \$ |
| <i>Financial assets</i> | | | | | |
| Cash and cash equivalents | 627,615 | (62,762) | (62,762) | 62,762 | 62,762 |
| | 627,615 | (62,762) | (62,762) | 62,762 | 62,762 |
| | 627,615 | (62,762) | (62,762) | 62,762 | 62,762 |
| Financial Assets – held at 30 June 2009 | Interest Rate Risk -1% | | | Interest Rate Risk +1% | |
| Financial assets | Carrying Amount \$ | Net Loss \$ | Equity \$ | Net Gain \$ | Equity \$ |
| Cash and cash equivalents | 1,005,023 | (10,050) | (10,050) | 10,050 | 10,050 |
| | 1,005,023 | (10,050) | (10,050) | 10,050 | 10,050 |
| | 1,005,023 | (10,050) | (10,050) | 10,050 | 10,050 |

(c) Credit Risk Exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. The Company measures credit risk on a fair value basis.

The Company does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics.

Exposure to Credit Risk

The carrying amount of the Company's financial assets represents the maximum credit exposure. The Company's maximum exposure to credit risk at the reporting date was:

| | Carrying Amount 2010 \$ | Carrying Amount 2009 \$ |
|-----------------------------|----------------------------------|----------------------------------|
| Cash and cash equivalents | 627,615 | 1,005,023 |
| Trade and other receivables | 344,345 | 219,284 |
| | 971,960 | 1,224,307 |
| | 971,960 | 1,224,307 |

NOTES TO THE FINANCIAL STATEMENTS

(d) Liquidity Risk Management

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following contractual maturities for financial liabilities on an undiscounted basis, including estimated interest payments. Cash flows for liabilities without fixed amount or timing based on conditions existing at year end.

| 30 June 2010 | Carrying Amount | Contractual Cash Flows | 1 year | 2-5 years |
|--------------------------|-----------------|------------------------|---------|-----------|
| Trade and other payables | 314,765 | 314,765 | 314,765 | - |

(e) Foreign Currency Risk

The Company has transactional foreign currency exposures. Such exposure arises from the sales or purchases by the operating entity in currencies other than Australian dollars. Minimal costs other than stock purchases of the group are denominated in currencies other than Australian dollars.

The Company does not currently hedge its foreign currency risk through the use of forward currency contracts as the cost to do so would outweigh the risk of the currency fluctuation. However the Company will review the requirement to manage the risk as the requirement arises.

The Company does not have any significant foreign currency risk at balance date.

(f) Fair Value of Financial Risks

The fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models based on estimated future cash flows. The Directors consider that the carrying amounts of financial assets and liabilities recorded in the financial statements approximate their fair values.

16. CONTINGENT LIABILITIES

There are no known contingent liabilities as at 30 June 2010.

17. SUBSEQUENT EVENTS

On 31 August 2010, the Company advised that it had received firm commitments to subscribe for a total of 6,000,000 ordinary fully paid shares at \$0.08 per share to raise \$480,000 before costs from predominately sophisticated investors, with the placement expected to be completed by 3 September 2010.

Other than as outlined above, there have been no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect:

- the Company's operations in future years; or
- the results of those operations in future years; or
- the Company's state of affairs in future years.

18. EXPENDITURE COMMITMENTS

(a) Operating lease commitments

The operating lease commitment relates to the lease of office space for the Company's head office which commenced on 24th April 2010. The lease term is for 24 months.

| | 2010 | 2009 |
|--|---------------|----------|
| | \$ | \$ |
| Not longer than one year | 30,000 | - |
| Longer than one year but no longer than five years | 25,000 | - |
| | <u>55,000</u> | <u>-</u> |

(b) Corporate services agreements

The Company has a Service Agreement with Hijausaya Inc for corporate advisory services set at \$6,250 per month and with Platinum Corporate Secretariat Pty Limited for company secretary services set at \$5,000 per month.

All other key personnel and company officer agreements have been detailed in various sections of the Financial Accounts.

19. SHARE BASED PAYMENTS & OPTIONS RESERVE

(a) Options issued and valuation

The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes Pricing Model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

The tables below summarise the number of options issued during the year ended 30 June 2010.

| Grant date | Expiry date | Number issued during the year | Number exercisable at end of year |
|------------|-------------|-------------------------------|-----------------------------------|
| 26/11/09 | 15/12/12 | 2,500,000 | 2,500,000 |
| 18/01/10 | 29/07/12 | 6,000,000 | 6,000,000 |
| | | 8,500,000 | 8,500,000 |

The details of the options issued to Key Management Personnel are as per disclosures in the Director's Report.

Fair value of options shares issued:

The table below includes the applicable variables used to calculate the fair price of the options using the Black Scholes Pricing Model during the year ended 30 June 2010.

| Options granted | Exercise price | Grant date | Expiry date | Share Price \$ | Risk Free Rate % | Volatility % | Value per option \$ | Total value of options vested at year end \$ |
|------------------|----------------|------------|-------------|----------------|------------------|--------------|---------------------|--|
| 2,500,000 | 20c | 26/11/09 | 15/12/12 | 0.15 | 4.57 | 140 | 0.114 | 285,000 |
| 1,000,000 | 20c | 18/01/10 | 29/07/12 | 0.13 | 4.77 | 125 | 0.0653 | 65,300 |
| 2,000,000 | 30c | 18/01/10 | 29/07/12 | 0.13 | 4.77 | 125 | 0.0362 | 72,400 |
| 1,000,000 | 40c | 18/01/10 | 29/07/12 | 0.13 | 4.77 | 125 | 0.0065 | 6,500 |
| 2,000,000 | 70c | 18/01/10 | 29/07/12 | 0.13 | 4.77 | 125 | 0.0005 | 1,000 |
| 8,500,000 | | | | | | | | 430,200 |

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the financial year ended 30 June 2010 was \$430,200.

(c) Option Reserve

Total expenses arising from share-based payment transactions recognised during the financial year ended 30 June 2010 was \$430,200.

| Movement | 2010 \$ | 2009 \$ |
|---|------------------|----------------|
| Balance at beginning of year | 548,109 | 548,109 |
| Reclassification of options issued pursuant to rights issue | 201,581 | - |
| Issue of employee share options (share based payment) | 430,200 | - |
| Balance at end of year | 1,179,890 | 548,109 |

20. INCOME TAX

The company does not have income tax expense payable due to losses incurred for the year for income tax purposes. The Company has an unrecognised Deferred Tax Asset (DTA), that has not been booked because recovery of the tax losses is not considered probable. The table below includes the estimated DTA applicable at the company tax rate of 30%.

| | 2010 | 2009 |
|---|------------------|------------------|
| | \$ | \$ |
| Accounting loss before income tax | (2,116,125) | (1,450,271) |
| Tax at the statutory rate of 30% | (634,838) | (435,081) |
| Temporary differences | (6,060) | 141 |
| Non-deductible items | 3,617 | - |
| Non-taxable items | 60,000 | (26,702) |
| Share based payments | 129,060 | - |
| Deferred tax assets not brought to account as their realisation is not probable | 448,221 | 461,642 |
| Income tax reported in the income statement | - | - |
| Losses available to offset against future taxable income | 2,473,457 | 2,025,236 |

The potential Deferred Tax Assets will only be obtained if:

- the relevant Company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
- the relevant Company continues to comply with the conditions for deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the relevant Company in realising the benefit from the deduction for the losses.

21. LOSS PER SHARE

The following reflects income and share data used in the calculation of basic and diluted loss per share.

| | 2010 | 2009 |
|--|------------|------------|
| | \$ | \$ |
| Net Loss | 2,116,125 | 1,450,271 |
| | No. | No. |
| Weighted average number of shares used in the calculating basic and diluted loss per share | 76,810,639 | 67,808,248 |
| Basic loss per share (cents) | 2.75 | 2.14 |

The diluted loss per share is not materially different from the basic loss per share.

DIRECTORS' DECLARATION

The directors of the Company declare that:

- (a) the financial statements and notes and remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 19 to 38 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report complies with International Financial Reporting Standards as disclosed in Note 1;
- (c) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*, the *Corporations Act 2001* and the *Corporations Regulations 2001*; and
- (d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become payable.

This declaration has been made after receiving the declarations form the Managing Director and the and Chief Financial Officer equivalent required by section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2010. In accordance with section 295A, the Managing Director and the Chief Financial Officer equivalent have declared that:

- (i) the financial records of the Company have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
- (ii) the financial statements and notes comply with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* in all material respects;
- (iii) the financial statement and notes give a true and fair view, in all material respects, of the financial position and performance of the Company.

This declaration is made in accordance with a resolution of the Board of Directors.



SYLVIA TULLOCH
Chairman

Perth, 31 August 2010

ASX ADDITIONAL INFORMATION
as at 27 August 2010

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Substantial Shareholders

The substantial shareholders of the Company are set out below:

| Shareholder | Shares Held | % of Issued Capital |
|------------------------------|-------------|---------------------|
| Equitas Nominees Pty Limited | 10,754,658 | 12.73% |

Voting Rights

- (a) at meetings of members each member entitled to vote may vote in person or by proxy or attorney;
- (b) on a show of hands each person present who is a member has one vote, and on a poll each person present in person or by proxy or by attorney has one vote for each ordinary share held; and
- (c) no voting rights attach to the listed or unlisted options.

Number of Holders of Unlisted Options

1,500,000 unlisted \$0.20 Options expiring 30/11/2010 held by 2 holders;
10,000,000 unlisted \$0.20 Options expiring 31/12/2011 held by 6 holders;
1,000,000 unlisted \$0.20 Options expiring 29/7/2012 held by 1 holder;
2,000,000 unlisted \$0.30 Options expiring 29/7/2012 held by 1 holder;
1,000,000 unlisted \$0.40 Options expiring 29/7/2012 held by 1 holder;
1,000,000 unlisted \$0.70 Options expiring 29/7/2012 held by 1 holder; and
2,500,000 unlisted \$0.20 Options expiring 15/12/2012 held by 3 holders.

On-Market Buy-Back

There is no current on-market buy back

Distribution of Ordinary Shares

| Category | Number of Holders | Ordinary Shares | % of Issued Capital |
|------------------|-------------------|-------------------|---------------------|
| 1 – 1,000 | 2 | 1,620 | 0.00 |
| 1,001 – 5,000 | 30 | 120,016 | 0.14 |
| 5,001 – 10,000 | 164 | 1,548,598 | 1.83 |
| 10,001 – 100,000 | 272 | 12,589,668 | 14.90 |
| 100,001 and over | 120 | 70,249,710 | 83.13 |
| | 588 | 84,509,612 | 100.00 |

The number of shareholders holding less than a marketable parcel is 32.

Distribution of Listed Options

| Category | Number of Holders | Listed Options | % of Listed Options |
|------------------|-------------------|-------------------|---------------------|
| 1 – 1,000 | 1 | 332 | 0.00 |
| 1,001 – 5,000 | 20 | 71,295 | 0.32 |
| 5,001 – 10,000 | 13 | 100,788 | 0.45 |
| 10,001 – 100,000 | 34 | 1,465,353 | 6.48 |
| 100,001 and over | 11 | 20,964,981 | 92.75 |
| | 79 | 22,609,749 | 100.00 |

The number of shareholders holding less than a marketable parcel is 58.

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ASX ADDITIONAL INFORMATION
as at 27 August 2010

Twenty Largest Shareholders

| Name | Number of Shares Held | % of Issued Capital |
|---|--------------------------|------------------------|
| Equitas Nominees Pty Limited | 10,754,658 | 12.73 |
| Merrill Lynch (Australia) Nominees Pty Ltd | 3,761,364 | 4.45 |
| Merrill Lynch (Australia) Nominees Pty Ltd | 3,000,000 | 3.55 |
| Mr & Mrs L Davies <L & J Davies Super Fund> | 2,832,875 | 3.35 |
| Mr & Mrs J Brigden <Brigden Super Fund> | 2,741,831 | 3.24 |
| Mr & Mrs A Suri | 2,454,483 | 2.90 |
| Professor A Berrick | 2,000,000 | 2.37 |
| Plan B Trustees Limited <Lifetime Super Fund> | 1,703,086 | 2.02 |
| Hijausaya Inc | 1,500,000 | 1.77 |
| Mr & Mrs A de Nicola <de Nicola Family S/F> | 1,350,000 | 1.60 |
| Mr H Steeger | 1,317,500 | 1.56 |
| Hijausaya Inc | 1,270,000 | 1.50 |
| Versailles Holdings Pty Ltd | 1,230,000 | 1.46 |
| Priyanga Mallawarachchi | 1,051,047 | 1.24 |
| Mr E Almonte | 975,000 | 1.15 |
| Antan Pty Ltd <Johadean A/C> | 950,821 | 1.13 |
| Mrs K Desmond | 927,946 | 1.10 |
| Chevelle Nominees Pty Ltd <Clapatre Family A/C> | 905,550 | 1.07 |
| Mr P Brown | 900,000 | 1.06 |
| Mr D Evans | 773,328 | 0.92 |
| | 42,399,489 | 50.17 |

Twenty Largest Listed Optionholders

| Name | Number of Shares Held | % of Issued Capital |
|--|--------------------------|------------------------|
| Equitas Nominees Pty Limited | 10,754,658 | 48.69 |
| Mr & Mrs L Davies <L & J Davies Super Fund> | 4,226,666 | 18.70 |
| Bloomberg Nominees Pty Ltd <Bloomfield Super Fund> | 2,097,110 | 9.28 |
| Mr M Greenup | 1,000,000 | 4.42 |
| Trimstar Plastering Pty Ltd | 1,000,000 | 4.42 |
| Ridge Street Investments Pty Ltd <Ridge Street A/C> | 406,236 | 1.80 |
| Mr P Brown | 300,000 | 1.33 |
| Mrs K Drummond | 300,000 | 1.33 |
| Raven Investment Holdings Pty Ltd <Raven Investment A/C> | 250,000 | 1.11 |
| Plan B Trustees Limited <Lifetime Super Fund> | 212,933 | 0.94 |
| Ms J Gush | 166,666 | 0.74 |
| Greenwood Nominees Pty Ltd | 100,000 | 0.44 |
| Ristovski Nominees Pty Ltd | 100,000 | 0.44 |
| Melbek Holdings Pty Ltd <Preistley S/F> | 100,000 | 0.44 |
| Crownway Pty Ltd | 83,333 | 0.37 |
| Eladin Pty Ltd <GTG Super Fund> | 83,333 | 0.37 |
| Mr & Mrs K Crosby | 83,333 | 0.37 |
| Mr & Mrs P Brown <Brown Super Fund> | 66,666 | 0.29 |
| Choisel Pty Ltd <TCRM Unit A/C> | 66,666 | 0.29 |
| Temporary Supervision & Risk Services Pty Ltd | 62,590 | 0.28 |
| | 21,460,190 | 96.05 |

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

TO THE DIRECTORS OF ECOQUEST LIMITED

As lead auditor for the audit of the financial statements of EcoQuest Limited for the year ended 30 June, 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of :

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

Dated at Subiaco this 31st day of August, 2010



**K. WESTAWAY FCA
PRINCIPAL
K. WESTAWAY & ASSOCIATES
CHARTERED ACCOUNTANTS**



**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
ECOQUEST LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of EcoQuest Limited (the company), which comprises the balance sheet as at 30 June, 2010, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

Director's Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Australian Accounting Standard AASB101: Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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



Auditor's Opinion

In our opinion:

- (a) the financial report of EcoQuest Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June, 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Inherent Uncertainty Regarding Going Concern

Without qualification to the audit opinion expressed above, attention is drawn to the following matter:

As referred to in Note 1 to the financial statements, the financial statements have been prepared on the going concern basis. For the year ended 30 June, 2010 the company incurred an operating loss of \$ 2,116,125 (2009 - \$ 1,450,271 loss), and had an operating cash outflow of \$ 1,953,123 (2009 - \$ 1,217,509 outflow). The ability of the company to continue as a going concern and meet the planned development, and commercialisation of its products, administration and other commitments, is subject to successful and profitable marketing and sales operations, and as required, further capital raising by the company.

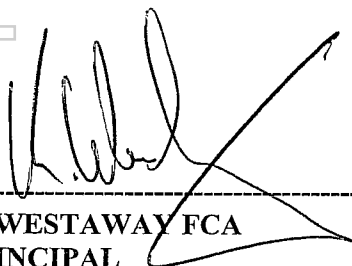
Report on the Remuneration Report

We have audited the remuneration report included in pages 8 to 10 of the Directors' Report for the year ended 30 June, 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of EcoQuest Limited for the year ended 30 June, 2010 complies with section 300A of the *Corporations Act 2001*.

Dated at Subiaco this 31st day of August, 2010.



**K. WESTAWAY FCA
PRINCIPAL
K. WESTAWAY & ASSOCIATES
CHARTERED ACCOUNTANTS**