BLUE ENSIGN TECHNOLOGIES LIMITED

ABN 91 086 332 836

formerly
e.Com Global Limited – to 3.9.02
Pacific International Limited – to 12.8.04

Annual Report

for the 12 months ended

31 December 2008

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CORPORATE DIRECTORY

Directors
Christopher Ryan – Executive chairman
John Blumer – Non executive director
Frank Ciotti – Non executive director

Company secretary
Grahame Clegg

Operations management
Cole Nelson – Chief operating officer
V W (Val) Vaughn, Jr – Project manager
Sandy Rintoul – Senior manager, technical services

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Advanced Share Registry Services
150 Stirling Highway
Nedlands WA 6009
Telephone: (08) 9389 8033
Fax: (08) 9389 7871
Website: www.advancedshare.com.au

Accountant
Grahame Clegg
Chartered Accountant
6 Chepstow Drive
Castle Hill NSW 2154
Telephone: (02) 9894 9403

Auditor
Ernst & Young (NSW)
680 George Street
Sydney NSW 2000
Telephone: (02) 9248 5555

Stock exchange listing
Australian Securities Exchange
ASX Code: BLE

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AN OVERVIEW OF THE BLUE ENSIGN GROUP

The Blue Ensign Group has two significant assets:

- pursuant to an assignment agreement dated 20 June 2007 Blue Ensign has acquired the intellectual property of the Rendall Process, which is patented process technology for the production of shale oil from oil shale. Blue Ensign believes that the Rendall Process offers such substantial benefits that it has the potential to become the process of choice of ex-situ shale oil projects world-wide; and

- 100% equity in Queensland Shale Oil Pty Ltd ("***QSO***"), the holder of 3 tenements aggregating 93 km^2 covering the core area of the large and well known oil shale deposit in northwest Queensland near Julia Creek. QSO's tenements host a JORC Code compliant Indicated Resource of 1,930 million tonnes and an additional Inferred Resource of 120 million tonnes containing 895 million bbls of oil based on Fischer Assay (a predictor of yield from conventional retorting process, which is quite different from the Rendall Process). Laboratory test work using Tetralin Assay (which approximates the yield to be obtained by the Rendall Process) conducted on Julia Creek core sample material indicates that the Rendall Process can be expected to produce approximately 100% more shale oil than indicated by Fischer Assay.

The Blue Ensign Group's business plan involves four main steps:

- the construction and operation of a demonstration plant (approximately 25 bopd) to demonstrate the Rendall Process in continuous mechanical operation. The chemistry of the Rendall Process has been well proven through over 400 lab scale tests of various oil shales from around the world. The demonstration plant will provide the basis for the detailed design of the proposed first commercial scale plant;

- the development of the Julia Creek Project aimed at the commercial production of shale oil from Julia Creek on a large scale. The first commercial scale plant and mining operation at Julia Creek is planned at approximately 15,000 bopd to be followed by a full scale plant and mining operation targeting shale oil production of approximately 50,000 bopd;

- the acquisition and commercial development of additional oil shale resources both in Australia and overseas; and

- the active marketing by Blue Ensign of licensed access to the Rendall Process to holders of shale oil resources around the world.

The successful completion of the development of the Rendall Process and its commercial application of the Rendall Process to the Julia Creek shale oil resource will position Blue Ensign at the forefront of the large scale development of a highly profitable and environmentally responsible shale oil from oil shale industry.

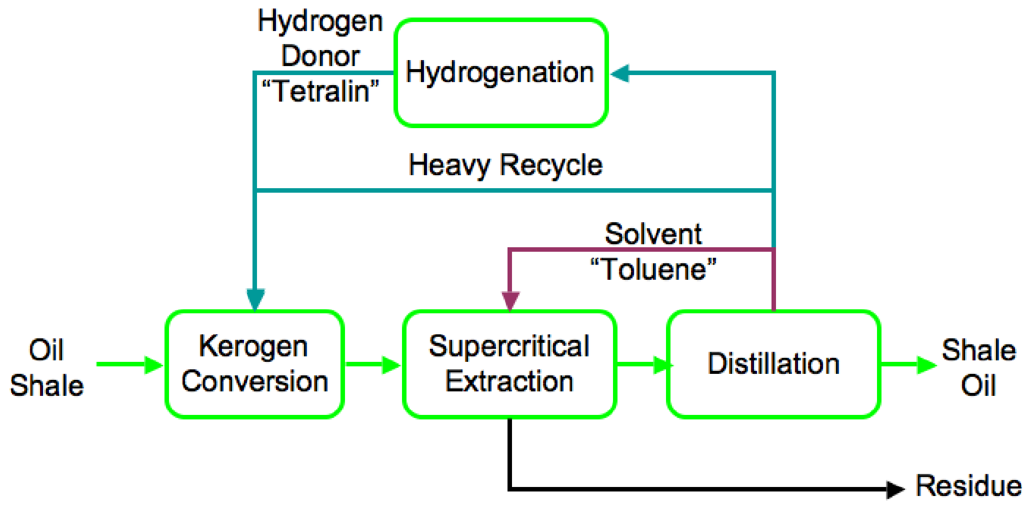
The Rendall Process

The Rendall Process is based on wide ranging patents and involves two main steps:

- thermal conversion and hydrogenation of the organic matter in oil shale (kerogen) in a special type of organic solvent (called a hydrogen donor solvent) in a closed system at elevated temperature and pressure; and

- supercritical solvent extraction to strip product oil from the spent shale residue.

A simplified flowsheet is presented below.



The principal benefits of the Rendall Process are expected to be as follows:

- **High shale oil yield**: About 90% of the kerogen in the oil shale will be converted to oil, yielding on average approximately 1 barrel (159 litres) of oil per tonne of oil shale mined from the Julia Creek tenement. It is expected that the Rendall Process will enable production of oil of approximately 200% of Fischer Assay.

- **Environmental performance**: Emissions of greenhouse gases per barrel of oil will be minimised and solid waste disposal problems will be essentially eliminated. Solid sulphur will be recovered from the organic sulphur in the kerogen, for sale as a by-product. With no air in the closed process system, there can be no combustion of the kerogen or its breakdown products.

  It can be expected that the environmental performance of a Rendall Process facility will be similar to that of a conventional oil refinery of the same production capacity.

- **Product**: The principal product will be a high quality hydrogenated crude oil, low in sulphur, nitrogen and oxygen, that is ready for sale to conventional oil refineries in Australia and overseas.

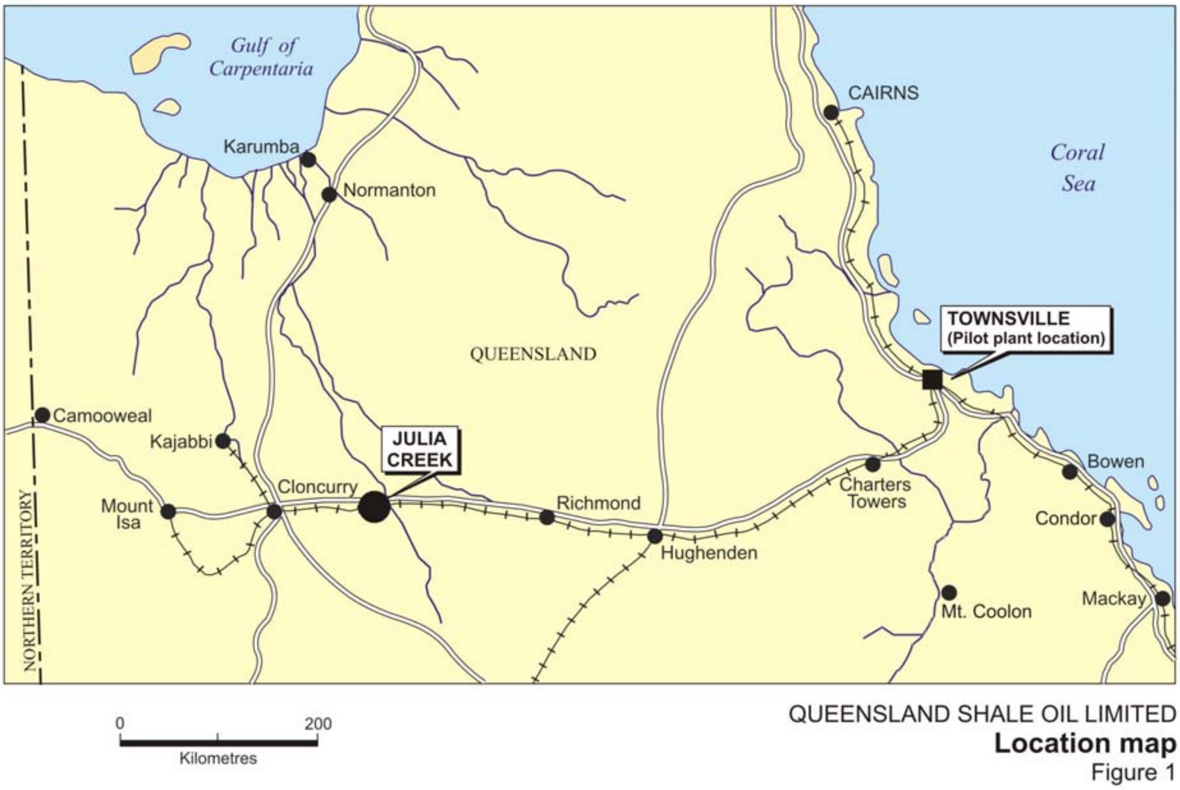
- **Suitable for scale-up**: The operation in well proven commercial applications of all the unit process and unit operations equipment required for the Rendall Process flowsheet demonstrates that the Rendall Process is readily capable of substantial scale-up.

- **Self-sufficiency**: In normal operations, all the gas required for process heat and process power generation, the process water and the hydrogen donor and the supercritical solvent extraction solvents will be derived from the process itself. The principal inputs to a commercial scale Rendall Process facility will be the oil shale ore and the operating personnel.

- **Mineral by-products**: Depending on the economics of further processing, mineral by-products recoverable from the spent shale residue at Julia Creek could include vanadium and molybdenum oxides, and portland cement.

The Julia Creek tenements

The Blue Ensign Group's Julia Creek tenements are located near the township of Julia Creek, the administrative centre of McKinlay Shire in northwest Queensland, about 650 km west of the coastal city of Townsville and 250 km east of the major mining centre of Mt Isa.



QUEENSLAND SHALE OIL LIMITED
Location map
Figure 1

The tenements aggregate 93 km^2 in area, and cover most of the core area of the Julia Creek deposit where oil shale grades are highest and overburden thickness lowest.

The deposit was discovered by Aquitaine Petroleum in 1965. Most of the field exploration programs and related technical studies were carried out between 1967 and 1988 by various Australian companies (including notably CSR Limited) at a total cost exceeding A$19 million (in money of the day). The two decades of work provided the bases for preliminary definition of the shale resource, open pit mining estimates, Fischer Assay yields and qualities of retorted crude oil. In addition, considerable work was directed to the economic recovery of vanadium, which is a minor but potentially significant component of the oil shale mineralisation.

The key features of the Julia Creek tenements are as follows:

- The regional Julia Creek oil shale deposit extends over a very wide area. Kerogen constitutes some 15-20% of the shale, with typical Fischer Assays of 40-90 litres of oil per tonne of shale;

- The total Contingent Oil Resource within the Blue Ensign Group tenements is estimated from the historic drill holes and Fischer Assay database is 895 million barrels of oil at an average grade of 70 litres/tonne. This estimate is based on a Fischer Assay cut off grade of 40 litres/tonne;

- Independent work on similar oil shales from other world sources has given thermal solution yields of more than double the Fischer Assay yields. In addition, a series of comparative “retort versus Rendall Process” tests on samples of Julia Creek shale, conducted for the Company by HRL Technology Pty Ltd, confirmed these general findings;

- The deposit located on the Group’s tenements is shallow, underlying a flat terrain and well suited to open pit mining. Average overburden stripping ratio is projected to be approximately 3:1.

The Julia Creek Project

The Julia Creek Project will be carried out in stages.

Demonstration plant and associated activities: The first part of the program involves the construction and operation of a demonstration scale demonstration plant, rated at 1 tonne/hour. The location for the demonstration plant is under review and will be decided mainly on the grounds of cost minimisation and relative ease of regulatory compliance. Once funding for the demonstration program has been arranged, the program of work for these activities is expected to be complete within 18 months.

First commercial scale plant: The successful completion of the demonstration plant program will be followed by the design finalisation, construction, commissioning and operation of the first commercial scale plant facilities. The plant is foreseen to be rated at 600 tonnes/hour of oil shale, which is likely to deliver approximately 600 barrels of oil per hour, or approximately 15,000 bopd if built at Julia Creek as currently planned. The development period is expected to be three years.

Stage III: Full scale commercial plant: The full scale commercial plant is envisaged to deliver approximately 50,000 barrels of oil per day. The development period is expected to be three years.

OPERATIONS FOR THE YEAR UNDER REVIEW

General activities undertaken by the technical team

The technical team provided corporate support and assistance throughout the period in a wide variety of activities, as described below. The scope of such activities included:

- development of the basic engineering design of the demonstration plant;
- updated the cost estimates and equipment list and specifications for the demonstration plant;
- identification, review, and evaluation of potential equipment suppliers and service providers;
- revision and updating of Process Flow Diagrams and control schemes for the demonstration plant;
- attendance and technical presentations at meetings with potential investors, and provision of responses to potential investors' technical due diligence questions;
- analysis of various economic and financial models for project(s) in several configurations;
- provision of input and editing of investor presentations and information memoranda;
- development of information regarding greenhouse gas emission estimates and costs;
- development of engineering information and cost estimates for the first commercial plant;
- revision of schedules and plans based on alternative financing approaches;
- assessment of alternative courses of action on various patents, and recommendation of preferred actions by the board;
- appraisal of potential impacts on the Blue Ensign Group of the Queensland Government moratorium on oil shale processing;
- organisation of records and samples in association with the shut down of the Albuquerque office; and
- investigatation and shipment of an oil shale sample to the Sydney office.

Funding

The primary corporate focus during the period under review was the pursuit of funding for both working capital and the demonstration plant. The year was characterised by the deteriorating stock market and in the second half of the year, a rapidly falling oil price. Each of these had an adverse impact on the Company's attempts to raise capital.

On 15 March 2008, the Company announced that the offer of shares pursuant to the Prospectus dated 27 November 2007 had closed without meeting the requirements for re-quotation of the Company's shares on the ASX. The offer sought to raise between $2.5 million (minimum subscription) and $25 million (with over-subscriptions) at 40 cents per Blue Ensign share.

A considerable effort was made to raise capital in the first six months of the year, initially in support of the prospectus offer, and subsequently on a private placement basis.

Following the closure of the prospectus offer, the Company sought to raise additional working capital by private placements of Blue Ensign shares and options pursuant to offers made to investors for whom a prospectus is not required by law. As at 30 June 2008, $427,000 had been raised by the issue of shares at 20 cents each, together with a free option (50 cents, 30.4.11) on a 1 for 2 basis.

In July Blue Ensign appointed Cavendish Capital Partners LLP (CCP) as financial adviser to assist in the fundraising efforts. CCP is based in the UK and is supported by Energy Catalyst Partners (ECP) as industry and strategy consultants.

CCP has access to a wide and diverse network of financial and industry investors and potential partners. CCP and ECP also provide Blue Ensign with a wide geographical coverage through their alliances with other advisers, who cover the Asia Pacific region, the Middle East, North America and Continental Europe.

CCP advised Blue Ensign to make certain changes to the basis on which it had previously been seeking funds. Blue Ensign accepted all the recommendations, the principal of which were:

- to raise sufficient funds in a single fundraising to finance the whole cost of the demonstration plant (approximately A$ 60 million), together with a balance of some A$10 million for working capital, contingency and fees taking the total to A$70 million;
- to recognise that an investor might wish to take majority control of the Company;
- to expand significantly the level of analysis and disclosure of costs and projected returns;
- to enhance the investor materials; and
- to extend substantially the geographical coverage of the marketing of the financing.

CCP's appointment was closely followed by a drastic turn down in the global financial and energy markets, which made the environment much less conducive to successful fundraising. During the course of CCP's extensive work on upgrading the investment offer, the board concluded that it would not be practical to launch the fundraising until calendar 2009. It was hoped that a degree of both stability and some improvement would occur in financial and energy markets in this time frame, and so it has proved.

The delay however necessitated the Company needing an injection of working capital to fund outgoings, including travel and accommodation costs for the funding, into the third quarter of 2009.

On the basis of preliminary responses from a number of potential investors, CCP has a good degree of confidence that the funds for the demonstration plant can now be raised.

Julia Creek tenement status

Early in 2008, the Company's 87 km^2 oil shale tenement at Julia Creek, EPM 12863, was renewed to 21 February 2010. On 17 April 2008, the Minister for Mines and Energy granted the addition to the EPM of the stock route area of approximately 6 km^2. (The stock route was previously excluded land.)

On 31 March 2008, the Department of Mines and Energy advised Blue Ensign that Mineral Development Licences MDL 379 and MDL 380, which cover the whole area of the EPM other than the area of the stock route, were available to proceed towards grant for an initial period of five years. These MDLs were subsequently granted from 1 June 2008 and the relevant areas were removed from the EPM.

A third MDL application was submitted (MDLA 400) over the area of the stock route. Once this MDL is granted, the Company's Julia Creek oil shale interests will consist wholly of the three MDLs.

On 24 August 2008, the Queensland Premier and Minister for Mines and Energy issued a joint statement that announced that oil shale mining and processing would be restricted in Queensland. The principle underlying the announcement was that the Queensland Government would not allow the environment to be put at risk while the technology for extraction of shale oil from oil shale was still not proven.

The statement:

- put a 20 year moratorium on all mining activities, bulk sampling and exploration over the McFarlane oil shale deposit (formerly known as Condor) near Proserpine in the Whitsunday region;

- committed the Government to devote the next two years to researching whether shale oil deposits can be used in an environmentally friendly way. The announcement said "*Over the next two years the Government will review the technology and if it stacks up economically, technologically and environmentally we will work with industry to see if it could have a broader application further down the track. If the objectives of commercial feasibility and environmental acceptance can be met, Queensland could eventually become a major producer of non-conventional oil to help meet national and international demand.*" and

- put a freeze on new shale oil mines anywhere in Queensland for at least the two year study period.

In response to a request for clarification of the policy statement, on 12 September 2008, Blue Ensign was advised by letter from a Senior Policy Advisor to the Minister for Mines and Energy as follows:

> *"3. In relation to all other shale oil deposits in Queensland [other than the McFarlane and Stuart deposits], no new tenure other than exploration tenure and no variation of existing entitlements will be granted until such time as the Government has considered a report on the desirability of exploitation of those resources on public interest grounds. This report is to include an assessment of impacts of any future sampling and processing of oil shale at the Stuart deposit near Gladstone.*
>
> *In the interim, existing entitlements under current oil shale tenure will continue to apply. Also note that the suspension on variation of existing entitlements is not intended to extend to renewals or assignments of existing tenure.*
>
> *There is also no indication that the assessment process to obtain environmental authorities for existing entitlements will be any more rigorous than may have been the case prior to 18 August 2008.*
>
> *Specifically, existing entitlements under [Blue Ensign's] MDL 379 and MDL 380 will continue uncharged. In the public interest, the application for MDL 400 and any significant variation of current entitlements under MDL 379 and MDL 380 (other than assignment or renewal) will not be granted until such time as the Government has considered the recommendations of the report mentioned in paragraph 3 above."*

The directors interpret the effect of the policy on each leg of the Blue Ensign business plan to be as follows:

Demonstration plant program. If the demonstration plant program were to be conducted in Queensland using Julia Creek oil shale, Blue Ensign would need (a) development and environmental approval for the demonstration plant and the taking of the sample at Julia Creek and (b) the appropriate tenure over the Julia Creek resource to be permitted to take the sample required. In relation to (a), there appears to be no change to the approvals required resulting from the policy. In relation to (b), Blue Ensign is fortunate that 87 km^2 of the former EPM 12863 has been converted to MDLs. The Company is seeking to have the terms of the MDL changed to make it clear that the samples required for the demonstration plant program can be taken. The directors believe that this amendment can readily be obtained. The business plan will not materially adversely affected by any delay in the granting of the third MDL over the stock route, which is now a granted EPM.

Commercial exploitation of the Julia Creek resource using the Rendall Process. Blue Ensign has always been aware that (a) much more onerous environmental and other approvals will be required for this development than are required for the demonstration plant program, and (b) Blue Ensign requires at least part of its oil shale bearing tenements to be converted to a Mining Lease prior to commercial mining being approved. In relation to (a), it remains unclear as to whether (apart from the 2 year study period freeze) the policy will make the required approvals harder or slower to get. The required approvals break down to two components, (i) approvals for mining and (ii) approvals for the process plant. The directors' view is that the Government would not apply any more stringent test to the environmental consequences of mining oil shale than would be applied to any other mine as Julia Creek is located away from sensitive coastal areas with their significant semi-urban population and tourism concerns. As to the process plant approvals, given a successful demonstration plant, the directors believe that Blue Ensign should have a better chance than others to get approval for processing oil shale. Blue Ensign expects that the environmental consequence of the proposed Rendall Process plant will not be excessive in comparison with other industrial and resource process plants.

Acquisition of other oil shale interests. In theory, the Queensland policy should make it easier and cheaper to acquire additional oil shale interests in Queensland, at least during the 2 year freeze period.

Rendall Process licensing business. If the consequence of the Queensland policy is to make the approvals required for processing oil shale more environmentally sensitive, Blue Ensign should benefit from the shift, once the demonstration plant confirms Blue Ensign's expectation as to superior environmental performance of a Rendall Process plant.

Re-quotation on ASX

The Company maintains its intention to meet the requirements for re-quotation of its shares on ASX as soon as practicable. This will involve the issue of a prospectus, the raising of a minimum amount of working capital (currently $2 million) and the obtaining of the required spread of shareholders (currently 400 shareholders each holding shares with a value of not less than $2,000).

This intention will be reviewed as necessary to take account of the views of the demonstration plant funding providers.

CORPORATE GOVERNANCE STATEMENT

Introduction

The board of directors of Blue Ensign is committed to achieving high standards of corporate governance. It has established corporate governance policies and procedures that accord, as far as is practicable, with the Ten Essential Corporate Governance Principles and Best Practice Recommendations ("***Recommendations***") issued by the ASX Corporate Governance Council. While the current composition and size of the board precludes full adherence to the Recommendations, Blue Ensign aims to progressively achieve full compliance through the expansion of the board as the Company grows.

Composition and responsibilities of the board

The directors are responsible to the shareholders for the performance of the Company in both the short and the longer term and seek to balance these sometimes competing objectives in the best interests of the Company as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Blue Ensign Group is properly managed.

Composition of the board

It has been determined that:

- the board should comprise both executive and non-executive directors with a majority of non-executive directors. All directors, but in particular non-executive directors, are charged with exercising independent judgment and review performance and related risk issues in respect of operating activities.
- the Company will endeavour to maintain a mix of directors from different backgrounds with complementary skills and experience.
- the board should undertake an annual board performance review and consider the appropriate mix of skills required by the board to maximise its effectiveness and its contribution to the Company.

Responsibilities

The responsibilities of the board include:

- oversight of the Blue Ensign Group, including its controls and accountability systems;
- development and approval of corporate strategies and performance objectives;
- review and approval of the Blue Ensign Group's business plans, the annual budgets and financial plans, including the resourcing of operating and capital requirements;
- overseeing and monitoring the Blue Ensign Group's performance and the achievement of the Blue Ensign Group's strategic goals and objectives, including acquisitions;
- identification and appointment, and removal of the Chief Executive Officer;
- monitoring financial performance including approval of the annual and half-yearly financial reports and liaison with the Company's auditors;
- appointment and assessment of the performance of any office holders of the Blue Ensign Group;

- ensuring effective management processes are in place and approving major corporate initiatives;
- enhancing and protecting the reputation of Blue Ensign Group;
- ensuring the significant risks facing the Blue Ensign Group have been identified and appropriate and adequate control, monitoring and reporting mechanisms are in place; and
- reporting to shareholders.

Explanation from Departures from Best Practice Recommendations

The board set out below its "if not, why not" report in relation to those matters of corporate governance where the Company's practices depart from the Recommendations.

Recommendation Reference	Notification of Departure	Explanation for Departure
2.1	No independent directors	The board has been structured such that its composition and size enables it to effectively discharge its responsibilities and duties. Each director has the relevant industry experience and specific expertise relevant to the Company's business and level of operations. The board considers that its structure is, and will continue to be, appropriate in the context of the Company's recent history. The Company considers that the non-independent directors possess the skills and experience suitable for building the Company. Furthermore, the board considers that in the current phase of the Company's growth, the Company's shareholders are better served by directors who have a vested interest in the Company. The board believes that the individuals on the board can make, and do make, quality and independent judgements in the best interests of the Company on all relevant issues. Directors having a conflict of interest in relation to a particular item of business must absent themselves from the board meeting before commencement of discussion on the topic. The board intends to reconsider its composition as the Company's operations evolve, and may appoint independent directors as it deems appropriate.
2.2, 2.3	Mr Christopher Ryan serves as the Executive Chairman of the Company	The board has taken the view that it is in the best interest of the Company and its shareholders that Mr Christopher Ryan serves in such capacities. The board believes that the Chairman is able and does bring quality and independent judgement to all relevant issues falling within the scope of the role of a Chairman.

2.4	A separate nomination committee has not been formed	Since 1 July 2006 the full board has carried out the role of a nomination committee. The board considers that the Company is not currently of a size to justify the formation of a nomination committee. The board as a whole undertakes process of reviewing the skill base and experience of existing directors to enable identification of attributes required in new directors.
4.2, 4.3	There is not a separate audit committee	Since 1 July 2006 the full board has carried out the role of an audit committee. The board considers that in the current circumstances of the Company no efficiencies or other benefits would be gained by establishing a separate audit committee. The board also relies on the functions and capabilities of its external auditors to ensure proper audit of financial statements. While the board considers this process sufficient to ensure integrity in financial reporting in the current circumstances, it will continue to monitor whether any further safeguards are required and make changes as appropriate. Once the size of the board exceeds three directors a separate audit committee will be established and, as far as is possible given the composition of the board, the audit committee will consist of a majority of independent directors.
9.1, 9.2, 9.3, 9.4	The Company does not have a formal remuneration policy and has not established a separate remuneration committee	Since 1 July 2006 the full board has carried out the role of a remuneration committee. The current remuneration of the directors is disclosed in the financial report. Non-executive directors receive a fixed fee for their services and do not receive performance based remuneration. Due to the small size of the Company, a separate remuneration committee was not considered to add any efficiency to the process of determining the levels of remuneration for the directors and key executives. Once the size of the board exceeds three directors a separate remuneration committee will be established and, as far as is possible given the composition of the board, the remuneration committee will consist of a majority of independent directors.

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 3 April 2009.

Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Shares			Options (50 cents, 30.4.11)		
	No of holders	No of securities	%	No of holders	No of securities	%
1 – 1,000	1,131	301,464	0.25%	1	20	0.00%
1,001 – 5,000	106	233,849	0.19%	1	5,000	0.00%
5,001 – 10,000	17	124,649	0.09%	-	-	-
10,001 – 100,000	34	1,833,433	1.45%	4	362,500	0.42%
100,001 and over	42	125,039,233	98.03%	20	85,700,000	99.57%
Totals		127,532,628	100.00%	26	86,067,520	100.00%

Equity security holders

Twenty largest shareholders

The names of the twenty largest shareholders are listed below:

	Ordinary shares	
Name	**Number held**	**%**
JSG-A Limited Partnership	52,500,000	41.17%
HSBC Custody Nominees (Aust) Limited – GSCO ECA	26,800,000	21.01%
Frank & Shari Ciotti	11,950,000	9.37%
HSBC Custody Nominees (Aust) Limited – GSI EDA	3,200,000	2.51%
Kahika Pty Ltd <Superannuation Fund A/C>	2,600,000	2.04%
EDS Pty Ltd <Rintoul Super Fund A/C>	2,600,000	2.04%
Poduta Pty Ltd	2,600,000	2.04%
Traci Russell	2,500,000	1.96%
Frank Joseph Ciotti	2,500,000	1.96%
Christopher Ryan	2,000,000	1.57%
Empire Securities Group	2,000,000	1.57%
Invia Custodian Pty Limited <WAM Capital Limited A/C>	1,750,000	1.37%
I-Spire Plc	1,535,322	1.20%
ANZ Nominees Limited <Cash Income Account>	1,000,500	0.79%
Abancourt Holdings Pty Ltd	1,000,000	0.78%
Rigi Investments Pty Ltd	833,333	0.65%
Twynam Agricultural Group Pty Ltd	833,333	0.65%
Botanical Nominees Pty Ltd <Wilson Asset Management Fund>	750,000	0.59%
DGAZ Pty Ltd <Super Fund A/C>	600,000	0.47%
Michael John Slade	500,000	0.39%
	120,052,488	94.14%

Unlisted options

	Number on issue	Number of holders
Options (50 cents, 30 April 2011)	86,067,520	26
Employee Options (30 cents, 30 June 2012)	1,000,000	1
Options (30 cents, 30 June 2012)	200,000	2

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	**%**
JSG-A Limited Partnership	52,500,000	41.17%
Commonwealth Bank of Australia and its subsidiaries	30,000,000	23.52%
Frank and Shari Ciotti	11,950,020	9.37%

Voting rights

The voting rights attaching to each class of equity securities are set out below:

Ordinary shares: On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options: No voting rights.

Restricted securities

The following securities are restricted from trading:	Shares	Options (50 cents, 30.4.11)
For the period of 24 months from reinstatement to quotation on ASX of shares in the Company	75,106,020	75,000,020

BLUE ENSIGN TECHNOLOGIES LIMITED
AND CONTROLLED ENTITIES

A.C.N. 086 332 836

FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

DIRECTORS' REPORT

The directors of Blue Ensign Technologies Limited submit herewith the annual financial report for the financial year ended 31 December 2008. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and positions of the directors and Company secretary of the Company during or since the end of the financial year are:

Christopher Ryan (Executive Chairman)

Christopher Ryan is the Principal of Westchester Corporate Finance, a Sydney based corporate advisory firm specialising in advising on mergers and acquisitions and associated transactions. Prior to forming Westchester in July 1996, Christopher was with Schroders Australia Limited for 27 years, the majority of which were as a Director of the Corporate Finance Division specialising in advising on project financing and mergers and acquisitions mainly in the Australian minerals and oil and gas sectors. In addition he has been the chairman and/or a director at various times of a number of Australian companies listed on the ASX. At present, he is a director of Bentley Capital Limited.

Frank Ciotti (Non-Executive Director)

Frank Ciotti is a Certified Public Accountant with approximately 40 years of financial and management experience. Frank graduated Magna Cum Laude with a Business Degree from University of California at Los Angeles in 1967. Frank currently serves as Operating Manager and majority shareholder of SFN Holdings, LLC, a company specialising in the ownership and management of commercial real estate in Southern California. He is a seasoned financial manager specialising in start-up companies.

John Blumer (Non-Executive Director)

John Blumer has over 40 years of experience in the Australasian and international oil exploration industry. He formed his own consulting firm in 1975, and became a major shareholder and director of RobSearch Australia Pty Ltd in 1990. He is specifically responsible for all petroleum related activities of RobSearch, specialising in exploration management, valuation of exploration and production interests and the preparation of statutory reports.

Grahame Clegg (Company Secretary)

Mr Clegg was appointed to the position of Company Secretary on 2 July 2008 and has over 36 years experience in audit, financial and corporate roles including 15 years in Company secretarial roles for ASX-listed companies. He is a director of Oakhill Hamilton Pty Ltd, and Taen Pty Ltd, companies which provide secretarial, accounting and corporate advisory services to a range of listed and unlisted companies.

Principal activities

For the year under review, the principal activity of the consolidated entity and parent entity was the further development, commercialisation and licensing of technology for the production of oil and minerals from oil shale and the mining and processing of oil shale.

Review of operations

The results of the operations of the Company and the consolidated entity during the financial year were as follows:

	Consolidated		Blue Ensign Technologies Limited	
	2008	2007	2008	2007
	$	$	$	$
Loss after income tax	(858,064)	(2,734,709)	(857,340)	(12,357,008)

Changes in state of affairs

There was no significant change in the state of affairs of the consolidated entity and parent entity other than that referred to in the financial statements or notes thereto.

Post balance date events

There were no other events subsequent to balance date which require disclosure in these accounts.

Future developments

Disclosure of information other than that disclosed elsewhere in this report regarding likely developments in the operations of the consolidated entity and parent entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity and parent entity. Accordingly, this information has not been disclosed in this report.

Environmental regulations

The directors believe that the Company has adequate systems in place for the management of its environmental requirements and are not aware of any significant breaches of these environmental requirements during the period covered by this report.

Dividends

No dividends have been paid or declared since the start of the financial year. The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2008.

Indemnification of officers and auditors

The Company has not, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred by such an officer or auditor.

Auditors' independence declaration

The auditors' declaration of independence is attached to this directors report on page 20.

Directors' meetings

The following table sets out the number of directors' meetings held during the financial year and the number of meetings attended by each director (while they were a director). During the financial year, two audit committee meetings were held.

	Board of Directors		Audit Committee	
	Held	Attended	Held	Attended
Christopher Ryan	8	8	2	2
Frank Ciotti	8	8	2	2
John Blumer	8	8	2	2

Directors' interests

	Christopher Ryan	Frank Ciotti	John Blumer
Ordinary Shares of Blue Ensign Technologies Limited			
Direct	2,000,000	11,950,020	-
Indirect	375,000	-	2,800,000
Options issued by Blue Ensign Technologies Limited			
Expiry 30.4.2011, exercise price 50c			
Direct	2,000,000	12,500,020	-
Indirect	-	-	2,800,000
Expiry 30.6.2012, exercise price 30c			
Direct	1,000,000	-	-
Indirect	-	-	-
Options issued by Queensland Shale Oil Pty Ltd			
Expiry 31.5.2012, exercise price $1.00			
Direct	750,000	250,000	250,000
Indirect	-	-	-

Share options

18,300,020 options to take up ordinary shares in Blue Ensign Technologies Limited issued to key management personnel remain unexercised at 31 December 2008. During the year no options were issued to key management personnel. 1,500,000 options expired during the year. Since the end of the financial year no further options have been issued.

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 or in the interest of any other registered scheme.

REMUNERATION REPORT (AUDITED)

Key management personnel

The key management personnel (KMP) of the Company comprise the directors only. The directors are :

Christopher Ryan
John Blumer
Frank Ciotti

Remuneration policy

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

KMP remuneration is not based upon Group performance.

The Company's policy for determining the nature and amount of emoluments of board members and senior executives of the Company is as follows:

Executive remuneration objective and structure

Objective
The objective of the reward schemes is to both reinforce the short and long term goals of the Company and to provide a common interest between management and shareholders.

The remuneration structure for executive officers, including executive directors, seeks to provide appropriate reward schemes.

Structure
Remuneration consists of fixed remuneration (base salary, superannuation and non-monetary benefits).

Fixed remuneration

Objective
Fixed remuneration is reviewed annually by a review of Company, business unit and individual performance and relevant comparative remuneration.

The fixed remuneration component of executives is detailed in the table below.

No portion of the remuneration is performance based.

Non - executive remuneration objective and structure

Objective
The board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure
The constitution and the ASX listing rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. Shareholders have approved an aggregate remuneration of $175,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed regularly.

Each non-executive director receives a base fee of $25,000 for being a director of the Group.

The non-executive directors do not receive retirement benefits, nor do they participate in any incentive programs.

The remuneration of non-executive directors for the years ended 31 December 2008 and 31 December 2007 are detailed in the tables below.

BLUE ENSIGN TECHNOLOGIES LIMITED
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

Details of Directors' remuneration for the year ended 31 December 2008

	Short term benefits			Post employment benefits	Equity based benefits		
Paid by Blue Ensign Technologies Limited	**Salary**	**Director's Fees**	**Consulting Fees**	**Superannuation**	**Options**	**Total**	**Performance related**
	$	$	$	$	$	$	%
Christopher Ryan	50,000	-	-	4,500	31,132	85,632	0.00%
Frank Ciotti	-	25,000	-	-	-	25,000	0.00%
John Blumer	-	25,000	-	-	-	25,000	0.00%
	50,000	50,000	-	4,500	31,132	135,632	
Paid by Blue Ensign Technologies Limited - Group							
Christopher Ryan	50,000	72,000	-	4,500	31,132	157,632	0.00%
Frank Ciotti	-	82,456	-	-	-	82,456	0.00%
John Blumer	-	25,000	-	-	-	25,000	0.00%
	50,000	179,456	-	4,500	31,132	265,088	

Details of Directors' remuneration for the year ended 31 December 2007

	Short term benefits			Post employment benefits	Equity based benefits		
Paid by Blue Ensign Technologies Limited	**Salary**	**Director's Fees**	**Consulting Fees**	**Superannuation**	**Options**	**Total**	**Performance related**
	$	$	$	$	$	$	%
Christopher Ryan	50,000	-	-	4,500	80,743	135,243	0.00%
Frank Ciotti	-	28,600	8,873	-	-	37,473	0.00%
John Blumer	-	28,600	-	-	-	28,600	0.00%
	50,000	57,200	8,873	4,500	80,743	201,316	
Paid by Blue Ensign Technologies Limited - Group							
Christopher Ryan	50,000	36,000	-	4,500	203,324	293,824	0.00%
Frank Ciotti	-	41,100	42,956	-	40,860	124,916	0.00%
John Blumer	-	41,100	-	-	40,860	81,960	0.00%
	50,000	118,200	42,956	4,500	285,044	500,700	

Employment contracts

There are no employment contracts with the directors.

The remuneration paid to each of the directors was set by a board meeting held on 17 July 2006 as follows:

Christopher Ryan	$50,000 pa for 16 hours a month spent on Blue Ensign Technologies Limited
Frank Ciotti	$25,000 pa for 8 hours a month spent on Blue Ensign Technologies Limited
John Blumer	$25,000 pa for 8 hours a month spent on Blue Ensign Technologies Limited

In each case any additional hours worked to be charged at the rate of $250 per hour.

Blue Ensign Technologies Limited has entered into agreements with the directors and certain employees and consultants to pay a monthly retainer of which a portion is deferred and its payment is contingent upon the completion of a capital raising by any member of the Group which is sufficient to build a demonstration plant.

Signed in accordance with a resolution of the directors made pursuant to s298(2) of the Corporations Act 2001.

On behalf of the Directors

C B RYAN
Director

Sydney, 30 April 2009

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Auditor's Independence Declaration to the Directors of Blue Ensign Technologies Limited

In relation to our audit of the financial report of Blue Ensign Technologies Limited for the financial year ended 31 December 2008 to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Gary Daniels
Partner

Sydney
30 April 2009

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Independent auditor's report to the members of Blue Ensign Technologies Limited

Report on the Financial Report

We have audited the accompanying financial report of Blue Ensign Technologies Limited, which comprises the balance sheet as at 31 December 2008, 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, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Blue Ensign Technologies Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the financial position of Blue Ensign Technologies Limited and the consolidated entity at 31 December 2008 and of their 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*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to the following matter. As a result of matters disclosed in Note 1 Going Concern, there is significant uncertainty as to whether the Company and the consolidated entity will be able to continue as going concerns, and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Company or the consolidated entity not continue as going concerns.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 18 of the directors' report for the year ended 31 December 2008. 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 Blue Ensign Technologies Limited for the year ended 31 December 2008, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Gary Daniels
Partner
Sydney, 30 April 2009

DIRECTORS' DECLARATION

In accordance with a resolution of directors, I state that:

1 In the opinion of the directors:

(a) The financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including

(i) Complying with Accounting Standards and the Corporations Regulations 2001; and

(ii) Giving a true and fair view of the Company's and the consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and

(b) There are reasonable grounds to believe that the Company and the consolidated entity will be able to pay its debts as and when they become due and payable.

2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 31 December 2008.

On behalf of the Board of Directors

C B RYAN
Director

Sydney, 30 April 2009

INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

	Note	Consolidated		Blue Ensign Technologies Limited	
		2008	2007	2008	2007
		$	$	$	$ Restated
Revenue and other income	4	13,929	44,094	119,992	271,626
Administration expenses		(191,248)	(669,393)	(137,140)	(380,412)
Borrowing costs	5	(73,346)	(3,305)	(45,602)	(2,479)
Corporate costs		(65,044)	(139,417)	(45,872)	(136,739)
Depreciation and amortisation expense	5	(41,616)	(40,018)	(4,496)	(2,898)
Diminution of investments in and loans to subsidiaries	5	-	-	(397,518)	(11,126,211)
Employee benefits expense and directors remuneration	5	(177,010)	(686,552)	(192,617)	(351,557)
Exploration expenses		(20,721)	(153,510)	-	(3,524)
Goodwill impairment	5	-	(4,198)	-	-
Marketing expenses		-	(243,240)	-	(220,140)
Occupancy expenses		-	(40,000)	-	(20,000)
Technology development costs		(300,476)	(638,624)	(67,104)	(311,161)
Travel expenses		(79,213)	(115,137)	(76,829)	(32,951)
Other expenses		(39,760)	(45,409)	(10,096)	(40,562)
Loss before income tax (expense)/benefit		(974,505)	(2,734,709)	(857,282)	(12,357,008)
Income tax (expense)/benefit	6	116,441	-	(58)	-
Net loss after related income tax (expense)/benefit	22	(858,064)	(2,734,709)	(857,340)	(12,357,008)
Basic and diluted loss per share (cents per share)	7	(0.69)	(2.24)		

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

BLUE ENSIGN TECHNOLOGIES LIMITED
AND CONTROLLED ENTITIES

BALANCE SHEETS
AS AT 31 DECEMBER 2008

	Note	Consolidated		Blue Ensign Technologies Limited	
		2008	2007	2008	2007
		$	$	$	$ Restated
CURRENT ASSETS					
Cash and cash equivalents	9	87,794	288,522	41,672	268,388
Trade and other receivables	10	32,369	108,037	1,423	60,939
TOTAL CURRENT ASSETS		120,163	396,559	43,095	329,327
NON-CURRENT ASSETS					
Trade and other receivables	11	30,000	10,000	-	-
Other financial assets	12	-	-	1,524,757	1,524,545
Property, plant and equipment	13	9,806	13,733	9,806	13,733
Exploration expenditure	14	650,000	650,000	-	-
Intangible assets	15	858,038	895,158	-	-
TOTAL NON-CURRENT ASSETS		1,547,844	1,568,891	1,534,563	1,538,278
TOTAL ASSETS		1,668,007	1,965,450	1,577,658	1,867,605
CURRENT LIABILITIES					
Trade and other payables	16	585,341	777,571	950,216	1,303,454
Interest bearing liabilities	17	852,247	277,998	675,644	199,589
TOTAL CURRENT LIABILITIES		1,437,588	1,055,569	1,625,860	1,503,043
NON-CURRENT LIABILITIES					
Provisions	18	2,453	-	1,292	-
TOTAL NON-CURRENT LIABILITIES		2,453	-	1,292	-
TOTAL LIABILITIES		1,440,041	1,055,569	1,627,152	1,503,043
NET ASSETS		227,966	909,881	(49,494)	364,562
EQUITY					
Issued capital	19	5,732,788	5,294,884	24,375,157	23,937,253
Reserves	21	156,998	418,753	156,685	151,305
Accumulated losses	22	(5,661,820)	(4,803,756)	(24,581,336)	(23,723,996)
TOTAL EQUITY		227,966	909,881	(49,494)	364,562

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

BLUE ENSIGN TECHNOLOGIES LIMITED
AND CONTROLLED ENTITIES

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

CONSOLIDATED	Equity $	Reserves $	Accumulated losses $	Total attributable to equity holders of the entity $
Balance at 1 January 2007	3,621,873	-	(2,069,047)	1,552,826
Shares issued during year	1,713,400	-	-	1,713,400
Amounts charged to option expense reserve	-	418,753	-	418,753
Share issue costs	(40,389)	-	-	(40,389)
(Loss) for the year	-	-	(2,734,709)	(2,734,709)
Balance at 31 December 2007	5,294,884	418,753	(4,803,756)	909,881
Shares issued during year	427,000	-	-	427,000
Share issue costs	10,904	-	-	10,904
Amounts charged (credited) to option expense reserve	-	(262,068)	-	(262,068)
Amounts added to foreign currency translation reserve	-	313	-	313
(Loss) for the year	-	-	(858,064)	(858,064)
Balance at 31 December 2008	**5,732,788**	**156,998**	**(5,661,820)**	**227,966**

Blue Ensign Technologies Limited	Equity $	Reserves $	accumulated losses $ Restated	Total attributable to equity holders of the entity $ Restated
Balance at 1 January 2007	22,264,248	-	(11,366,988)	10,897,260
Shares issued during year	1,713,400	-	-	1,713,400
Share issue costs	(40,395)	-		(40,395)
Amounts charged to option expense reserve	-	151,305	-	151,305
(Loss) for the year	-	-	(12,357,008)	(12,357,008)
Balance at 31 December 2007	23,937,253	151,305	(23,723,996)	364,562
Shares issued during year	427,000	-	-	427,000
Share issue costs	10,904	-	-	10,904
Amounts charged to option expense reserve	-	5,380	-	5,380
(Loss) for the year	-	-	(857,340)	(857,340)
Balance at 31 December 2008	**24,375,157**	**156,685**	**(24,581,336)**	**(49,494)**

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

BLUE ENSIGN TECHNOLOGIES LIMITED
AND CONTROLLED ENTITIES

CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

	Note	Consolidated		Blue Ensign Technologies Limited	
		2008	2007	2008	2007
		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		-	-	-	-
Payments to suppliers and employees		(995,215)	(2,202,742)	(583,755)	(868,127)
R&D tax offset rebate received		116,499	-	-	-
Interest received		12,655	28,928	11,473	19,254
Other income		126	15,166	126	15,166
Net cash used in operating activities	33 (c)	(865,935)	(2,158,648)	(572,156)	(833,707)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for other property, plant and equipment		(569)	(7,456)	(569)	(7,456)
Proceeds from sale of property, plant and equipment		1,148	-	1,148	-
Proceeds from sale of investments		36,000	52,000	36,000	52,000
Payments for investment in Innovative Technologies		-	(5,898)	-	(5,898)
Payments for Rendall Process Intellectual Property		-	(22,838)	-	-
Payments for security deposits		(20,000)	-	-	-
Cash acquired from Innovative Technologies		-	1,700	-	-
Loans (to)/from subsidiaries		-	-	(290,273)	(1,204,602)
Net cash provided by/(used in) investing activities		16,579	17,508	(253,694)	(1,165,956)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		445,865	277,998	403,321	199,589
Proceeds of share issues		427,000	1,713,400	427,000	1,713,400
Amounts received pursuant to prospectus		(236,000)	236,000	(236,000)	236,000
Share issue costs		-	(40,389)	-	(40,395)
R&D tax offset rebate received		-	-	-	-
Net cash provided by/(used in) financing activities		636,865	2,187,009	594,321	2,108,594
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(212,491)	45,869	(231,529)	108,931
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		288,522	242,653	268,388	159,457
Effect of exchange rates on cash holdings in foreign currencies		11,763	-	4,813	-
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	33 (a)	87,794	288,522	41,672	268,388

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

NOTE

1. SUMMARY OF ACCOUNTING POLICIES

Corporate information

The financial report of Blue Ensign Technologies Limited (the Company) for the year ended 31 December 2008 was authorised for issue in accordance with a resolution of the directors on 30 April 2009.

Blue Ensign Technologies Limited (the parent) is a company limited by shares incorporated in Australia whose shares are publicly listed on the Australian Stock Exchange. The Company's shares are currently suspended from trading.

The nature of the operations and principal activities of the Group are described in the directors' report.

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001.

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

Basis of preparation

The financial report has been prepared on the basis of historical cost .

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.

Going concern

The financial report has been prepared on a going concern basis.

The Company and controlled entities generated a net loss of $858,064 and negative cash flows from operations of $865,935 in the year ended 31 December 2008 as the Group continues to work towards the development of the Rendall Process and development and commercialisation of its Julia Creek oil shale tenements.

As of balance date, the Company and controlled entities had net assets of $227,966, cash balances of $87,794 and was in a net current liabilities position and the parent company had negative net assets of $49,494 and a cash balance of $41,672. The Directors regularly monitor the Group's cash position and on an on-going basis consider a number of strategic and operational plans and initiatives to ensure that adequate funding continues to be available for the Group to meet its business objectives.

The Company's ability to continue as a going concern and undertake activities towards the development of the Rendall Process and development and commercialisation of its Julia Creek oil shale tenements will require the Company to obtain new funding through debt or equity, the sale of assets or the licensing of the Rendall Process to other parties.

The Directors believe that the Group will be successful in negotiating and obtaining additional funding and having regard to the above factors, at the date of this financial report the directors conclude that the consolidated entity is a going concern and able to pay its debts as they fall due and realise their assets in the ordinary course of business. The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, or the amounts or classification of liabilities, which might be necessary should the Company not be able to continue as a going concern.

Prior period errors

The company has in this financial report made adjustments to balances as previously reported in the 31 December 2007 financial report. These adjustments relate to the parent company balances of Blue Ensign Technologies Limited.

	Note	2007 Previously Disclosed $	Adjustment $	2007 Restated $
Trade and other receivables	(i)	755,799	(694,860)	60,939
Other financial assets	(ii)	11,955,896	(10,431,351)	1,524,545
Diminution of investments in and loans to subsidiaries	(iii)	-	(11,126,211)	(11,126,211)

(i) Provision for doubtful debts on amounts due from wholly owned controlled entities
An adjustment of $694,860 has been recorded as a provision in the prior period to account for the recoverable value of the amounts due from wholly owned controlled entities. The impact of this has been to fully provide for the value of amounts receivable by Blue Ensign Technologies Limited from its subsidiaries.

(ii) Provision for diminution of investments
An adjustment of $10,431,351 has been recorded as a provision in the prior period to account for the recoverable value of the investments held by Blue Ensign Technologies Limited in its subsidiaries. The impact of this has been to write down the value of the investments in subsidiaries to their fair value.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

Prior period errors (continued)

(iii) Diminution of investments in and loans to subsidiaries
The diminution of investments in and loans to subsidiaries is the aggregate of the provisions generated against the amounts owing from wholly owned controlled entities and the carrying value of the investments in subsidiaries.

The errors above have been corrected by restating the balance sheet, income statement and related disclosure comparatives as previously disclosed in the 31 December 2007 financial report.

Significant Accounting Policies

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

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Accounts payable
Trade payables and other accounts payable are recognised when the consolidated entity and parent entity becomes obliged to make future payments resulting from the purchase of goods and services.

(b) Acquisition of assets
Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

(c) Borrowings
Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(d) Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready All other borrowing costs are recognised in income in the period in which they are incurred.

(e) 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.

(f) Comparative amounts
Where necessary, comparative amounts have been changed to reflect changes in disclosures in the current year.

(g) Depreciation
Depreciation is provided on property, plant and equipment.

Depreciation provided on computer and office equipment is calculated on a straight line basis, and on small equipment on a diminishing value basis, so as to write off the net cost or other revalued amount of each asset over its expected useful life. The following estimated useful lives are used in the calculation of depreciation.

- Computer equipment	2-3 years
- Office equipment	6-8 years
- Small equipment < $1000	4-5 years

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(h) Employee entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, and long service leave expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of other employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity and parent entity in respect of services provided by employees up to the reporting date.

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service.

(i) Exploration for and evaluation of mineral resources

For each area of interest, expenditures incurred in the exploration for and evaluation of mineral resources are expensed as incurred unless the rights to tenure of the area of interest are current and either:

(a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or

(b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

If either of the above conditions are met, expenditures are partially or fully capitalised, and recognised as an exploration and evaluation asset.

Exploration and evaluation assets are measured at cost at recognition.

Expenditures typically recognised as exploration and evaluation assets include:

(a) acquisition of rights to explore;
(b) topographical, geological, geochemical and geophysical studies;
(c) exploratory drilling;
(d) trenching;
(e) sampling; and
(f) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Recoverability of the carrying amount of exploration and evaluation assets is dependent on successful development and commercial exploitation or alternative sale of the relevant area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an impairment loss is recorded.

(j) Financial assets

The Group's financial assets fall into the categories discussed below, with the allocation depending to an extent on the purpose for which the asset was acquired. The Group does not use derivative financial instruments in economic hedges of currency or interest rate risk. The Group has not classified any of its financial assets as held to maturity.

Trade and other receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally though the sale of assets and GST receivable. They are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue and subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Available for sale

Non-derivative financial assets not included in the above categories are classified as available for sale. They are carried at fair value with changes in fair value recognised directly in the available for sale reserve. Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously charged to equity, is recognised in the income statement. Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available for sale reserve. On sale, the amount held in the available for sale reserve associated with that asset is removed from equity and recognised in the income statement.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(k) Financial Instruments issued by the Company

Debt and Equity Instruments
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual agreement.

Interest and Dividends
Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments.

(l) Financial liabilities

The Group classifies its financial liabilities as measured at amortised cost. The Group does not use derivative financial instruments in economic hedges of currency or interest rate risk.

These financial liabilities include the following items:

Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Borrowings from shareholders are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. These borrowings are non interest bearing liabilities which are subsequently measured at amortised cost using the effective interest rate method.

(m) Foreign currency transactions

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 except that exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

(n) Functional and presentation currency

The functional and presentation currency of Blue Ensign Technologies Limited and its Australian subsidiaries is Australian dollars (A$). The United States subsidiary's functional currency is United States dollars (US$) which is translated to the presentation currency upon consolidation.

(o) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:
(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
(ii) for receivables and payables which are recognised inclusive of GST.
The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

(p) 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.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed. 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, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

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, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(q) Income tax
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation
The Company and all its wholly-owned Australian resident entities have not entered into a tax consolidated group under Australian taxation law.

(p) Intangible assets

Goodwill
Goodwill represents the excess of the cost of the business combination over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is not amortised but is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Impairment losses on goodwill cannot be reversed.

Rendall Process Intellectual Property
The Rendall Process is an innovative and patent protected approach to the production of high quality synthetic crude oil from oil shale.

The Rendall Process intellectual property is carried at cost to the extent that it is expected that the asset may realise benefits to the Company in the future. While the intellectual property has an indefinite useful life and is not normally subject to amortisation the directors have determined that an amortisation based on a straight line basis over the estimated life of the intellectual property is to be adopted as a conservative approach to recording its value in the consolidated balance sheet. The directors have used 25 years as the estimated useful life.

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

(r) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Group, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the Group are eliminated in full.

The acquisition of Australian Thermal Solutions Pty Ltd has been treated using the "reverse acquisition method" of accounting for acquisitions because the effective control of Blue Ensign Technologies Limited passed from the former Blue Ensign Technologies shareholders and directors to the Australian Thermal Solutions shareholders and directors.

Accordingly, the consolidated financial statements have been presented as if Australian Thermal Solutions were the parent company, which reduced the effective goodwill on consolidation to $437,167. This amount has been written off under AIFRS impairment policies.

Subsidiaries are accounted for at cost in the separate financial statements of Blue Ensign Technologies Limited less any impairment charges.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(t) Provisions
Provisions are recognised when the consolidated entity and parent entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(u) Receivables
Trade receivables and other receivables are recorded at amounts due less any provision for doubtful debts.

(v) Recoverable amount of non-current assets
Non-current assets are written down to recoverable amount where the carrying value of any non-current assets exceeds recoverable amount. Recoverable amount is determined as the undiscounted amount expected to be recovered through the cash inflows and outflows arising from the continued use and subsequent disposal of the non-current assets.

(w) Revenue recognition
Sale of goods and disposal of assets
Revenue from the sale of goods and disposal of assets is recognised when the consolidated entity and parent entity has passed the risks and rewards of the goods or assets to the buyer.

Rendering of services
Revenue from a contract to provide services is recognised on completion of the contract.

Interest income
Interest income is recognised as it is accrued using the effective interest rate method.

Other income
Other income is recognised as it is earned.

(x) Share capital
Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments. The Group is not subject to any externally imposed capital requirements.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(y) New accounting standards

Certain new accounting standards have been published that are not mandatory for 31 December 2008 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB	Title	Summary	Application date	Impact on Group	Application date for Group
AASB Int. 16	Hedges of a Net Investment in a Foreign Operation	This interpretation proposes that the hedged risk in a hedge of a net investment in a foreign operation is the foreign currency risk arising between the functional currency of the net investment and the functional currency of any parent entity. This also applies to foreign operations in the form of joint ventures, associates or branches.	01-Oct-08	No material impact	01-Jan-09
AASB8 AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 *Segment Reporting*, which adopts a management reporting approach to segment reporting.	01-Jan-09	Implementation will be required	01-Jan-09
AASB12 AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	01-Jan-09	Implementation will be required	01-Jan-09
AASB10 AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive inco Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	01-Jan-09	Implementation will be required	01-Jan-09
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	01-Jan-09	Implementation will be required if further share based payments are made.	01-Jan-09

No other new or proposed accounting standards or interpretations are expected to have a material impact on the Group.

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

(a) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group is exposed to foreign exchange risk predominantly arising from currency exposures to the US dollar on its loans and payables denominated in USD. Currency protection measures may be deemed appropriate in specific commercial circumstances and are subject to strict limits laid down by the Board. The Group has not entered into any foreign currency hedging contracts during the year.

(b) Credit risk

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. There is negligible credit risk on financial assets of the Group since there is limited exposure to individual customers and the economic entity's exposure is limited to the amount of cash, short term deposits and receivables which have been recognised in the balance sheet. The parent entity has exposure to credit risk in the amounts receivable from subsidiaries but this is limited as thse amounts have been fully provided for.

(c) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group has no interest rate risk as its loans are at fixed rates.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding to enable the Company to operate as a going concern. The Board monitors liquidity on a monthly basis and management monitors liquidity on a daily basis.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

The following critical estimates and judgements have been made in respect of the following items :

(a) *Rendall Process Licence*
While the directors are of the opinion that the value of the license has not been impaired, the current term of the license is for 25 years and accordingly the value is being amortised over that period.

(b) *Investment in ATS by parent company.*
The carrying value is based on the cost of acquisition of ATS by Blue Ensign which was determined with reference to the investment into ATS by the Colonial Group at the same time as ATS was acquired less an allowance for impairment which reduces the carrying value to reflect the net assets of ATS. The directors do not believe that the investment is being carried in excess of its value.

(c) *Impairment of non-financial assets other than goodwill*
The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. Given the current uncertain economic environment management considered that the indicators of impairment were significant enough and as such these assets have been tested for impairment in this financial period.

(d) *Recovery of deferred tax assets*
Deferred tax assets are recognised for deductible temporary differences only where management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(e) *Impairment of goodwill and intangibles with indefinite useful lives*
The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. Amortisation of $37,120 was recognised in the current year in respect of the Rendall Process Intellectual Property.

(f) *Share-based payment transactions*
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black & Scholes model, with the assumptions detailed in note 26. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

	Consolidated		Blue Ensign Technologies Limited	
	2008	2007	2008	2007
4. REVENUE	$	$	$	$
Revenue				
Sales revenue	-	-	-	-
	-	-	-	-
Other income				
Interest - other entities	12,655	28,928	11,473	19,254
Management fees charged to controlled entities	-	-	107,245	237,206
Gain on sale of non current assets	1,148	-	1,148	-
Other income	126	15,166	126	15,166
	13,929	44,094	119,992	271,626

5. EXPENSES	**Consolidated 2008 $**	**Consolidated 2007 $**	**Blue Ensign Technologies Limited 2008 $**	**Blue Ensign Technologies Limited 2007 $**
Loss from ordinary activities before income tax includes the following items of expense:				
Depreciation and amortisation expense				
Amortisation of intangible assets	37,120	37,120	-	-
Depreciation of Property, plant and equipment	4,496	2,898	4,496	2,898
Total depreciation and amortisation expense	41,616	40,018	4,496	2,898
Diminution of investments in and loans to subsidiaries				
Diminution of investments in subsidiaries	-	-	-	10,431,351
Diminution of loans to subsidiaries	-	-	397,518	694,860
Total diminution of investments in and loans to subsidiaries	-	-	397,518	11,126,211
Employment expenses and directors remuneration				
Base salary and directors fees	612,782	341,122	188,489	186,771
Superannuation	15,957	10,768	8,757	7,118
Share based expense (Note 26(a))	(262,068)	418,753	5,380	151,305
Transfers to provisions:				
- Employee entitlements	16,064	15,250	5,519	6,363
	382,735	785,893	208,145	351,557
Less amounts charged to technology development costs	(205,725)	(99,341)	(15,528)	-
Total employment expense	177,010	686,552	192,617	351,557
Other expenses				
Foreign exchange loss	61,609	20,685	31,945	20,933
Impairment of Goodwill	-	4,198	-	-
Interest expense	73,346	3,305	45,602	2,479

6. INCOME TAX

(a) Income tax expense

The prima facie income tax benefit on pre-tax accounting loss reconciles to the income tax benefit in the financial statements as follows:

	Consolidated 2008 $	Consolidated 2007 $	Blue Ensign Technologies Limited 2008 $	Blue Ensign Technologies Limited 2007 $
Loss for year	(974,505)	(2,734,709)	(857,282)	(12,357,008)
Income tax benefit calculated at 30%	(292,352)	(820,413)	(257,185)	(3,707,102)
Temporary differences and tax losses not recognised (refer note 6(c))	289,833	815,744	254,666	3,705,864
Other permanent differences				
- Non deductible expenses				
- Impairment of goodwill	-	1,154	-	-
- Entertainment	2,461	3,515	2,461	1,238
R&D tax offset rebate received	116,499	-	-	-
Income tax benefit attributable to loss	116,441	-	(58)	-
(b) Adjusted franking account balance	-	-	-	-

(c) Deferred tax balances not recognised

Calculated at 30% not brought to account as assets:	**Balance Sheet 2008 $**	**Balance Sheet 2007 $**	**Income Statement 2008 $**	**Income Statement 2007 $**
Consolidated				
Deferred tax assets relating to tax losses				
Revenue tax losses available for offset against future tax income	2,606,585	2,789,411		
Capital tax losses available for offset against future tax income	4,543,963	4,543,963		
Net deferred tax asset (liability) not recognised in respect of tax losses	7,150,548	7,333,374		
Deferred tax assets relating to temporary differences				
Provision for amortisation of intangibles	27,840	16,704	11,136	11,136
Provision for employee entitlement	10,026	5,207	4,819	3,521
Accruals	9,900	7,500	2,400	7,500
	47,766	29,411	18,355	22,157
Deferred tax liabilities relating to temporary differences				
Difference between book and tax values of fixed assets	(128)	-	(128)	-
	(128)	-	(128)	-
Net deferred tax asset not recognised in respect of temporary differences	47,638	29,411		

6. INCOME TAX (continued)

(c) Deferred tax balances not recognised (continued)

Blue Ensign Technologies Limited	Balance Sheet 2008 $	Balance Sheet 2007 $	Income Statement 2008 $	Income Statement 2007 $
Deferred tax assets relating to tax losses				
Revenue tax losses available for offset against future tax income	2,023,031	1,967,120		
Capital tax losses available for offset against future tax income	4,543,963	4,543,963		
Net deferred tax asset (liability) not recognised in respect of tax losses	6,566,994	6,511,083		
Deferred tax assets relating to temporary differences				
Provision for diminution of investment in and loans to subsidiaries	3,457,118	3,337,863	119,255	3,337,863
Provision for employee entitlement	3,565	1,909	1,656	1,412
Accruals	9,900	7,500	2,400	7,500
	3,470,583	3,347,272	123,311	3,346,775
Deferred tax liabilities relating to temporary differences				
Difference between book and tax values of fixed assets	(128)	-	(128)	-
	(128)	-	(128)	-
Net deferred tax asset not recognised in respect of temporary differences	3,470,455	3,347,272		

(d) Tax consolidation

Relevance of tax consolidation to the consolidated entity

Legislation to allow groups comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes ('the tax consolidation system') was substantively enacted on 21 October 2002. The Company, its wholly-owned Australian resident entities and its sister entities within Australia are eligible to consolidate for tax purposes under this legislation and the directors of these entities consider it likely that they will elect to implement the tax consolidation system in due course.

At the date of this report, the directors have not made a final decision to implement the tax consolidation system and, if so, from what date the implementation would occur. As a result, only the financial effects of the mandatory aspects of the enabling legislation have been recognised in the financial statements and no adjustment has been made to recognise the financial effects that may result from the implementation of the tax consolidation system.

7. LOSS PER SHARE

	2008	2007
Basic and diluted loss per share (cents per share)	(0.69)	(2.24)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted loss per share.	124,459,182	122,272,847

Instruments outstanding that could potentially dilute earnings per share in the future but were anti-dilutive for the periods presented are 87,317,520 share options (2007 - 85,700,000 share options).

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

8. AUDITORS' REMUNERATION

	Consolidated 2008 $	Consolidated 2007 $	Blue Ensign Technologies Limited 2008 $	Blue Ensign Technologies Limited 2007 $
Remuneration of Ernst & Young for :				
Audit and review of the financial report	57,205	-	57,205	-
Review of tax return	15,900	-	-	-
Total auditors remuneration	73,105	-	57,205	-
Remuneration of BDO for :				
Audit and review of the financial report	18,000	85,740	18,000	62,662
Review of tax return	22,195	6,150	22,195	6,150
Review of prospectus	-	5,000	-	5,000
Total auditors remuneration	40,195	96,890	40,195	73,812
Total auditors remuneration	113,300	96,890	97,400	73,812

9. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	87,794	288,522	41,672	268,388

The carrying amounts of the Group's cash are a reasonable approximation of their fair values.

10. CURRENT TRADE AND OTHER RECEIVABLES

	Consolidated		Blue Ensign Technologies Limited	
	2008	2007	2008	2007
	$	$	$	$
GST receivable	9,026	65,856	1,423	24,939
Other receivables	6,181	42,181	-	36,000
Amounts due from wholly owned controlled entities	-	-	1,092,378	694,860
Less provision for doubtful debts	-	-	(1,092,378)	(694,860)
Prepayments	17,162	-	-	-
	32,369	108,037	1,423	60,939

The carrying amounts of the Group's current trade and other receivables are a reasonable approximation of their fair values.

11. NON-CURRENT TRADE AND OTHER RECEIVABLES

Security deposits	30,000	10,000	-	-
	30,000	10,000	-	-

The carrying amounts of the Group's security deposits are a reasonable approximation of their fair values.

12. OTHER NON-CURRENT FINANCIAL ASSETS

Unlisted investments, at cost :				
Controlled entities (refer Note 23)	-	-	11,956,108	11,955,896
Less provision for diminution	-	-	(10,431,351)	(10,431,351)
	-	-	1,524,757	1,524,545

The carrying amounts of the Group's other non-current financial assets are a reasonable approximation of their fair values.

13. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Blue Ensign Technologies Limited	
	Plant & Equipment	Total	Plant & Equipment	Total
Gross Carrying Amount	$	$	$	$
Balance at 31 December 2006	26,712	26,712	26,712	26,712
Additions	7,456	7,456	7,456	7,456
Balance at 31 December 2007	34,168	34,168	34,168	34,168
Additions	569	569	569	569
Balance at 31 December 2008	34,737	34,737	34,737	34,737
Accumulated Depreciation				
Balance at 31 December 2006	17,537	17,537	17,537	17,537
Depreciation Expense	2,898	2,898	2,898	2,898
Balance at 31 December 2007	20,435	20,435	20,435	20,435
Depreciation Expense	4,496	4,496	4,496	4,496
Balance at 31 December 2008	24,931	24,931	24,931	24,931
Net Book Value				
Balance at 31 December 2007	13,733	13,733	13,733	13,733
Balance at 31 December 2008	9,806	9,806	9,806	9,806

	Consolidated		Blue Ensign Technologies Limited	
	2008	2007	2008	2007
Aggregate depreciation allocated during the year:	$	$	$	$
- Plant and equipment	4,496	2,898	4,496	2,898
	4,496	2,898	4,496	2,898

14. EXPLORATION EXPENDITURE

	Consolidated		Blue Ensign Technologies Limited	
	2008	2007	2008	2007
	$	$	$	$
Exploration expenditure	650,000	650,000	-	-

This expenditure is the acquisition of 100% of the tenement EPM 12863 at Julia Creek, Queensland.

Movement

Balance at 1 January	650,000	650,000	-	-
Additions	-	153,510	-	3,524
Amounts written off	-	(153,510)	-	(3,524)
Balance at 31 December	650,000	650,000	-	-

15. INTANGIBLE ASSETS

	Consolidated 2008 $	Consolidated 2007 $	Blue Ensign Technologies Limited 2008 $	Blue Ensign Technologies Limited 2007 $
Rendall Process Intellectual Property	950,838	950,838	-	-
Less amortisation	(92,800)	(55,680)	-	-
Net	858,038	895,158	-	-
Goodwill on consolidation	437,167	437,167	-	-
Less amortisation	(437,167)	(437,167)	-	-
Net	-	-	-	-
	858,038	895,158	-	-

Movement in written down value	Consolidated Rendall Process IP $	Consolidated Goodwill $	Blue Ensign Technologies Limited Rendall Process IP $	Blue Ensign Technologies Limited Goodwill $
2007				
Balance at 31 December 2006	909,440	-	-	-
Additions	22,838	-	-	-
Acquisition of controlled entities	-	4,198	-	-
Impairment charge	-	(4,198)	-	-
Amortisation	(37,120)	-	-	-
Balance at 31 December 2007	895,158	-	-	-
2008				
Balance at 31 December 2007	895,158	-	-	-
Amortisation	(37,120)	-	-	-
	858,038	-	-	-

16. CURRENT TRADE AND OTHER PAYABLES

	Consolidated 2008 $	Consolidated 2007 $	Blue Ensign Technologies Limited 2008 $	Blue Ensign Technologies Limited 2007 $
Unsecured:				
Trade payables	91,437	329,281	73,881	284,506
Other payables and accruals *	457,668	171,212	187,347	72,698
GST creditors	5,268	23,721	5,268	23,721
Amounts due to controlled entities	-	-	673,130	680,166
Amounts received pursuant to prospectus not concluded	-	236,000	-	236,000
Annual leave entitlements	30,968	17,357	10,590	6,363
	585,341	777,571	950,216	1,303,454

* Accruals include accrued interest on directors fees of $6,781 which is calculated at 8% per annum.
The carrying amounts of the Group's current trade and other payables are a reasonable approximation of their fair values.

17. CURRENT INTEREST BEARING PAYABLES

Loans from directors (note 27(e))	510,624	277,998	389,593	199,589
Loans from others	341,623	-	286,051	-
	852,247	277,998	675,644	199,589

The carrying amounts of the Group's current interest bearing payables are a reasonable approximation of their fair values.
All loans are on demand loans and bear interest at a fixed rate of 8% per annum.

18. NON CURRENT PROVISIONS

Long service leave	2,453	-	1,292	-
Movement				
Balance at beginning of financial year	-	-	-	-
Amounts provided during the year	2,453	-	1,292	-
Balance at end of financial year	2,453	-	1,292	-

Nature and timing of provision
The provision for long service leave recognises the liability for long service leave accrued in respect of services provided by employees up to the reporting date.

19. SHARE CAPITAL

	Consolidated 2008 $	Consolidated 2007 $	Blue Ensign Technologies Limited 2008 $	Blue Ensign Technologies Limited 2007 $
127,532,628 fully paid ordinary shares (2007: 123,397,628)	5,882,279	5,455,279	24,479,101	24,052,101
Less share issue costs	(149,491)	(160,395)	(103,944)	(114,848)
	5,732,788	5,294,884	24,375,157	23,937,253

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Movement in ordinary share capital of Blue Ensign Technologies Limited	2008 Number of shares	2008 $	2007 Number of shares	2007 $
Balance at beginning of year	123,397,628	23,937,253	117,594,629	22,264,248
Blue Ensign Technologies Limited shares issued during year				
Share placement	4,135,000	427,000	5,802,999	1,713,400
	127,532,628	24,364,253	123,397,628	23,977,648
Transaction costs relating to share issues		10,904		-40,395
Balance at end of year	127,532,628	24,375,157	123,397,628	23,937,253

For the purposes of these disclosures, the Group considers its capital to comprise its ordinary share capital, and accumulated losses. Neither the option expense reserve nor the foreign currency translation reserve is considered as capital. There have been no changes in what the Group considers to be capital since the previous period.

20. OPTIONS

	Expiry Date	Exercise Price	Number on issue 31 December 2007	Granted during year	Lapsed during year	Exercised during year	Number on issue 31 December 2008
Unlisted	31.12.2008 (Note (a))	0.20	1,000,000	-	(1,000,000)	-	-
	30.04.2011 (Note (b))	0.50	83,000,020	-	-	-	83,000,020
	30.04.2011 (Note (c))	0.50	-	3,067,500	-	-	3,067,500
	30.06.2012 (Note (d))	0.30	1,700,000	-	(500,000)	-	1,200,000
Total options on issue			85,700,020	3,067,500	(1,500,000)	-	87,267,520

Note
(a) These options were issued to employees and consultants and expired on 31 December 2008.
(b) These options were issued to former shareholders of Australian Thermal Solutions Pty Ltd when that company was acquired by the Group.
(c) These options were issued to investors as a free attaching option to shares acquired pursuant to the share placement.
(d) These options were issued to employees and consultants in prior years and their value has been expensed and transferred to the option expense reserve.

21. RESERVES

	Consolidated 2008 $	Consolidated 2007 $	Blue Ensign Technologies Limited 2008 $	Blue Ensign Technologies Limited 2007 $
Options expense reserve	156,685	418,753	156,685	151,305
Foreign currency translation reserve	313	-	-	-
	156,998	418,753	156,685	151,305
Option expense reserve				
Balance at beginning of financial year	418,753	-	151,305	-
Value of options issued during year to :				
Employees and consultant	(63,147)	133,709	-	70,562
Directors	(198,921)	285,044	5,380	80,743
Balance at end of financial year	156,685	418,753	156,685	151,305

Nature and purpose of reserve
The option expense reserve records the value of options issued to employees, consultants and Directors, as part of the remuneration for their services.

Foreign currency translation reserve				
Balance at beginning of financial year	-	-	-	-
Exchange rate fluctuation during year	313	-	-	-
Balance at end of financial year	313	-	-	-

Nature and purpose of reserve
The Foreign currency translation reserve records the impact of the movement of the exchange rate as it relates to the Company's investment in overseas subsidiaries.

	Consolidated 2008 $	Consolidated 2007 $	Blue Ensign Technologies Limited 2008 $	Blue Ensign Technologies Limited 2007 $
22. ACCUMULATED LOSSES				
Balance at beginning of financial year	(4,803,756)	(2,069,047)	(23,723,996)	(11,366,988)
Net losses for year	(858,064)	(2,734,709)	(857,340)	(12,357,008)
Balance at end of financial year	(5,661,820)	(4,803,756)	(24,581,336)	(23,723,996)

23. PARTICULARS RELATING TO CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Ownership Interest 2008 %	Ownership Interest 2007 %
Controlled entities			
Australian Thermal Solutions Pty Ltd	Australia	100	100
Queensland Shale Oil Pty Ltd	Australia	100	100
RP International Pty Ltd	Australia	100	100
Innovative Technologies Inc	USA	100	100

	Consolidated 2008 $	Consolidated 2007 $	Blue Ensign Technologies Limited 2008 $	Blue Ensign Technologies Limited 2007 $
24. COMMITMENTS FOR EXPENDITURE				
(a) Capital expenditure commitments				
There are no capital commitments at the end of the financial year				
(b) Tenement expenditure				
Not later than one year	100,000	250,000	-	-
Later than 1 year but not later than 5 years	-	-	-	-
	100,000	250,000	-	-

25. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) The directors of Blue Ensign Technologies Limited during the year were:

Christopher Ryan
John Blumer
Frank Ciotti

(b) Other key management personnel

All key management personnel of the consolidated entity are the directors of Blue Ensign Technologies Limited.

(c) Remuneration of Directors and Executives

Details of Directors' remuneration for the year ended 31 December 2008

	Short term benefits			Post employment benefits	Equity based benefits		
Paid by Blue Ensign Technologies Limit	**Salary**	**Director's Fees**	**Consulting Fees**	**Superannuation**	**Options**	**Total**	**Performance related**
	$	$	$	$	$	$	%
Christopher Ryan	50,000	-	-	4,500	31,132	85,632	0.00%
Frank Ciotti	-	25,000	-	-	-	25,000	0.00%
John Blumer	-	25,000	-	-	-	25,000	0.00%
	50,000	50,000	-	4,500	31,132	135,632	
Paid by Blue Ensign Technologies Limited - Group							
Christopher Ryan	50,000	72,000	-	4,500	31,132	157,632	0.00%
Frank Ciotti	-	82,456	-	-	-	82,456	0.00%
John Blumer	-	25,000	-	-	-	25,000	0.00%
	50,000	179,456	-	4,500	31,132	265,088	

Details of Directors' remuneration for the year ended 31 December 2007

	Salary	Director's Fees	Consulting Fees	Superannuation	Options	Total	Performance related
Paid by Blue Ensign Technologies Limited							
Christopher Ryan	50,000	-	-	4,500	80,743	135,243	0.00%
Frank Ciotti	-	28,600	8,873	-	-	37,473	0.00%
John Blumer	-	28,600	-	-	-	28,600	0.00%
	50,000	57,200	8,873	4,500	80,743	201,316	
Paid by Blue Ensign Technologies Limited - Group							
Christopher Ryan	50,000	36,000	-	4,500	203,324	293,824	0.00%
Frank Ciotti	-	41,100	42,956	-	40,860	124,916	0.00%
John Blumer	-	41,100	-	-	40,860	81,960	0.00%
	50,000	118,200	42,956	4,500	285,044	500,700	

No loans have been made from the Company to key management personnel.

(d) Transactions with associates of directors

	2008 $	2007 $
LOANS Loans from key management personnel are disclosed in Note 27(e)	510,625	277,998
OFFICE OVERHEADS Controlled entities paid fees to Robsearch Australia Pty Ltd, a company associated with Mr John Blumer, as a contribution towards office overheads. The fees were determined on a commercial basis.		
Australian Thermal Solutions Pty Ltd	-	30,000
Queensland Shale Oil Pty Ltd	-	20,000
PLACEMENT FEES The company paid fees to Westchester Financial Services Pty Ltd, a company associated with Mr Christopher Ryan, in respect of the placement of shares in the company. The fees were determined on a commercial basis.	-	18,750

(e) Equity instrument disclosures relating to directors

Number of Shares and Options held by specified directors and executives

2008	Number held 31 December	Acquired during year	Sold during year*	Issued on exercise of options	Number held 31 December
Shares					
Christopher Ryan	2,375,000	-	-	-	2,375,000
Frank Ciotti	17,500,020	-	(5,550,000)	-	11,950,020
John Blumer	2,800,000	-	-	-	2,800,000
	22,675,020	-	(5,550,000)	-	17,125,020

* gifted to family members

	Number held 31 December	Acquired during year	Lapsed during year	Exercised during year	Number held 31 December
Options					
Christopher Ryan	2,000,000	-	-	-	2,000,000
Frank Ciotti	12,500,020	-	-	-	12,500,020
John Blumer	2,800,000	-	-	-	2,800,000
	17,300,020	-	-	-	17,300,020
Employee Options Blue Ensign Technologies Limited					
Christopher Ryan	1,000,000	-	-	-	1,000,000
Frank Ciotti	-	-	-	-	-
John Blumer	-	-	-	-	-
	1,000,000	-	-	-	1,000,000
Employee Options Queensland Shale Oil Pty Ltd					
Christopher Ryan	750,000	-	-	-	750,000
Frank Ciotti	250,000	-	-	-	250,000
John Blumer	250,000	-	-	-	250,000
	1,250,000	-	-	-	1,250,000

2007	Number held 31 December	Acquired during year	Sold during year	Issued on exercise of options	Number held 31 December
Shares					
Christopher Ryan	2,375,000	-	-	-	2,375,000
Frank Ciotti	17,500,020	-	-	-	17,500,020
John Blumer	2,800,000	-	-	-	2,800,000
	22,675,020	-	-	-	22,675,020

	Number held 31 December	Acquired during year	Lapsed during year	Exercised during year	Number held 31 December
Options					
Christopher Ryan	2,000,000	-	-	-	2,000,000
Frank Ciotti	12,500,020	-	-	-	12,500,020
John Blumer	2,800,000	-	-	-	2,800,000
	17,300,020	-	-	-	17,300,020
Employee Options Blue Ensign Technologies Limited					
Christopher Ryan	-	1,000,000	-	-	1,000,000
Frank Ciotti	-	-	-	-	-
John Blumer	-	-	-	-	-
	-	1,000,000	-	-	1,000,000
Employee Options Queensland Shale Oil Limited					
Christopher Ryan	-	750,000	-	-	750,000
Frank Ciotti	-	250,000	-	-	250,000
John Blumer	-	250,000	-	-	250,000
	-	1,250,000	-	-	1,250,000

26. SHARE BASED PAYMENTS

(a) Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	Consolidated		Blue Ensign Technologies Limited	
	2008	2007	2008	2007
	$	$	$	$
Expense arising from equity-settled share-based payment transactions				
Blue Ensign Employee Share Option Plan	5,380	151,305	5,380	151,305
QSO Employee Share Option Plan	(267,448)	267,448	-	-
Total expense arising from share-based payment transactions (note 5)	(262,068)	418,753	5,380	151,305

Options granted under the QSO plan prior to the successful completion of QSO's intended IPO may not be exercised until such time as a QSO IPO is successfully completed. The directors have assigned a 0% (2007 - 10%) probability that this funding option will be pursued as QSO has converted from a public company to a proprietary company.

(b) Details of share-based payment plans

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2008 and 2007.

Blue Ensign Employee Share Option Plan

Under the Blue Ensign Employee Share Option Plan, directors, employees and consultants are granted options to acquire shares in the Company. The exercise price is determined by the directors.

The terms of the Blue Ensign Employee Share Option Plan provides for the following vesting conditions :

20% vest immediately on grant of options
20% vest on the first anniversary of grant of options
20% vest on the second anniversary of grant of options
20% vest on the third anniversary of grant of options
20% vest on the fourth anniversary of grant of options

The fair value of the options granted under the plan is estimated using the Black & Scholes valuation methodology taking into account the terms and conditions under which the options are granted.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2008 is 3.50 years (2007: 4.50 years).

The weighted average fair value of options granted during the year was nil (2007: $0.18).

The range of exercise prices for options outstanding at the end of the year was $0.30.

The following table shows the inputs to the Black & Scholes model in respect of options granted in the prior year. No options were granted in the current year.

	Employees	Directors
Value of Underlying Stock	0.300	0.300
Exercise Price	0.300	0.300
Dividend Yield	0.00%	0.00%
Volatility (per Year)	63.20%	66.70%
Risk free rate	6.55%	6.50%
Maturity	30/6/12	30/6/12
Pricing Date	1/6/07	3/9/07

The options issued are on an equity settled basis. There are no cash settlement alternatives.

Summary of options granted under the Blue Ensign employee share plan arrangements

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options issued during the year:

	2008 Number	2008 WAEP	2007 Number	2007 WAEP
Outstanding at the beginning of the year	1,700,000	0.30	-	-
Granted during the year	-	-	1,700,000	0.30
Forfeited during the year	(450,000)	0.30	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,250,000	0.30	1,700,000	0.30
Exercisable at the end of the year	500,000		340,000	

The outstanding balance as at 31 December 2008 is represented by 1,250,000 options over ordinary shares with an exercise price of $0.30 each, exercisable upon meeting the above conditions and until 30 June 2012.

(b) Details of share-based payment plans (continued)

QSO Employee Share Option Plan

Under the QSO Employee Share Option Plan, directors, employees and consultants are granted options to acquire shares in the company. The exercise price is determined by the directors.

The terms of the QSO Employee Share Option Plan provides for the following vesting conditions :
- 20% vest immediately on grant of options
- 20% vest on the first anniversary of grant of options
- 20% vest on the second anniversary of grant of options
- 20% vest on the third anniversary of grant of options
- 20% vest on the fourth anniversary of grant of options

In addition, all options granted prior to the successful completion of QSO's intended IPO may not be exercised until such time as a QSO IPO is successfully completed. The directors have assigned a 0% probability that this funding option will be pursued as QSO has converted from a public company to a proprietary company.

The fair value of the options granted under the plan is estimated using the Black & Scholes valuation methodology taking into account the terms and conditions under which the options are granted.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2008 is 3.42 years (2007: 4.42 years).

The range of exercise prices for options outstanding at the end of the year was $1.00.

The weighted average fair value of options granted during the year was nil (2007: $0.62).

The following table shows the inputs to the Black & Scholes model in respect of options granted in the prior year. No options were granted in the current year.

	Employees	Directors
Value of Underlying Stock	1.000	1.000
Exercise Price	1.000	1.000
Dividend Yield	0.00%	0.00%
Volatility (per Year)	55.50%	70.00%
Risk free rate	6.25%	6.50%
Maturity	31/5/12	31/5/12
Pricing Date	1/6/07	3/9/07

The options issued are on an equity settled basis. There are no cash settlement alternatives.

Summaries of options granted under the QSO employee share plan arrangements

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options issued during the year:

	2008 Number	2008 WAEP	2007 Number	2007 WAEP
Outstanding at the beginning of the year	3,850,000	1.00	-	-
Granted during the year	-	-	3,850,000	1.00
Forfeited during the year	(400,000)	1.00	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,450,000	1.00	3,850,000	1.00
Exercisable at the end of the year	1,380,000		770,000	

The outstanding balance as at 31 December 2008 is represented by 3,450,000 options over ordinary shares with an exercise price of $1.00 each, exercisable upon meeting the above conditions and until 31 May 2012.

27. RELATED PARTY DISCLOSURES

(a) Directors
The directors of Blue Ensign Technologies Limited during the year were :
Christopher Ryan
John Blumer
Frank Ciotti

(b) Remuneration of directors and key management personnel
Details of remuneration of directors are disclosed in note 25 to the financial statements.

At 31 December 2008 there were no key management personnel other than directors.

(c) Transactions with directors and director related entities concerning shares and share options
Details of Transactions with directors and director related entities concerning shares and share options are disclosed in note 23 to the financial statements.

27. RELATED PARTY DISCLOSURES (continued)

(d) Equity interests in related parties
Details of the percentage of ordinary shares held in controlled entities are disclosed in note 23 to the financial statements.

	Consolidated 2008 $	Consolidated 2007 $
(e) Loans from directors		
During the year loans were made to the Company by its directors. The amounts outstanding, which include accumulated accrued interest, at 31 December are:		
Christopher Ryan	163,253	101,087
Frank Ciotti	157,530	105,984
John Blumer	163,124	70,927
Robsearch Australia Pty Ltd	26,718	-
(f) Interest on loans from directors		
During the year interest was accrued on loans made to the Company by its directors:		
Christopher Ryan	12,305	1,087
Frank Ciotti	11,667	1,291
John Blumer	12,198	927
Robsearch Australia Pty Ltd	1,718	-
(g) Interest on accrued directors fees included in other payables and accruals (Note 16)		
During the year interest was accrued on loans made to the Company by its directors:		
Christopher Ryan	8,513	-
Frank Ciotti	5,464	-
John Blumer	1,720	-

28. FINANCIAL INSTRUMENTS DISCLOSURES

(a) Capital management
The Group considers its capital to comprise its ordinary share capital and accumulated losses.

The Group's ordinary shares are classified as equity instruments. The Group is not subject to any externally imposed capital requirements.

In managing its capital, the Group's primary objective is to ensure its continued ability to maintain its operations and provide a platform to enable a return for its equity shareholders to be made when successful commercial operations are achieved. In order to achieve this objective, the Group seeks to maximise its fund raising to provide sufficient funding to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues, or reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

(b) Financial instrument risk exposure and management
In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

Further quantative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

(c) Principal financial instruments
The principal financial instruments used by the Group, from which financial instrument risks arise, are as follows:

cash at bank;
security deposits;
trade and other receivables;
trade and other payables; and
loans

28. FINANCIAL INSTRUMENTS DISCLOSURES (continued)

(d) General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

(i) Credit risk

Credit risk arises principally from the Group's trade receivables. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument.

Other receivables

Other receivables comprise the receivable in respect of the sale of the unified messaging business and GST receivable.

The maximum exposure to credit risk at balance date is as follows :

	Consolidated		Blue Ensign Technologies Limited	
	2008	2007	2008	2007
	$	$	$	$
Security Deposits	30,000	10,000	-	-
Other receivables	6,181	42,181	-	36,000
Amounts due from wholly owned controlled entities	-	-	1,092,378	694,860
	36,181	52,181	1,092,378	730,860

(ii) Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.
The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected to meet expected requirements for a period of at least 45 days.

The Board receives cash flow projections in a monthly basis as well as information regarding cash balances. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances. The Board noted the intention of directors and other lenders not to require payment for the next twelve months or until a capital raising of sufficient funds is made.

The Group does not have any financing facilities in place and does not have a bank overdraft.

Maturity analysis of financial assets and liability based on contractual obligations.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital (e.g., trade receivables). These assets are considered in the Group's overall liquidity risk.

	Carrying Amount	Contractual Cash flows	< 6 mths	6- 12 mths	1-3 years	> 3 years	On demand *
	$	$	$	$	$	$	$
Maturity Analysis - Consolidated - 2008							
Financial Assets							
Cash at bank and on hand	87,794	87,794	87,794	-	-	-	-
Other receivables	6,181	6,181	6,181	-	-	-	-
Security deposits	30,000	30,000	-	-	30,000	-	-
TOTAL	123,975	123,975	93,975	-	30,000	-	-
Financial Liabilities							
Trade Creditors	91,437	91,437	91,437	-	-	-	-
Other payables and accruals	493,904	493,904	-	100,853	-	-	393,051
Loans	852,247	852,247	-	-	-	-	852,247
TOTAL	1,437,588	1,437,588	91,437	100,853	-	-	1,245,298
NET MATURITY	(1,313,613)	(1,313,613)	2,538	(100,853)	30,000	-	(1,245,298)
Maturity Analysis - Consolidated - 2007							
Financial Assets							
Cash at bank and on hand	288,522	288,522	288,522	-	-	-	-
Other receivables	42,181	42,181	30,181	12,000	-	-	-
Security deposits	10,000	10,000	-	-	-	10,000	-
TOTAL	340,703	340,703	318,703	12,000	-	10,000	-
Financial Liabilities							
Trade Creditors	329,281	329,281	329,281	-	-	-	-
Other payables and accruals	171,212	171,212	171,212	-	-	-	-
Loans	277,998	277,998	-	-	-	-	277,998
Amounts received pursuant to prospectus	236,000	236,000	236,000	-	-	-	-
TOTAL	1,014,491	1,014,491	736,493	-	-	-	277,998
NET MATURITY	(673,788)	(673,788)	(417,790)	12,000	-	10,000	(277,998)

28. FINANCIAL INSTRUMENTS DISCLOSURES (continued)

(d) General objectives, policies and processes (continued)

(ii) Liquidity risk (continued)

	Carrying Amount $	Contractual Cash flows $	< 6 mths $	6- 12 mths $	1-3 years $	> 3 years $	On demand * $
Maturity Analysis - Parent - 2008							
Financial Assets							
Cash at bank and on hand	41,672	41,672	41,672	-	-	-	-
Amounts due from wholly owned controlled entities	1,092,378	1,092,378	-	-	-	-	1,092,378
TOTAL	1,134,050	1,134,050	41,672	-	-	-	1,092,378
Financial Liabilities							
Trade Creditors	73,881	73,881	73,881	-	-	-	-
Other payables and accruals	203,205	203,205	-	65,174	-	-	138,031
Loans	675,644	675,644	-	-	-	-	675,644
Amounts due to wholly owned controlled entities	673,130	673,130	-	-	-	-	673,130
TOTAL	1,625,860	1,625,860	73,881	65,174	-	-	1,486,805
NET MATURITY	(491,810)	(491,810)	(32,209)	(65,174)	-	-	(394,427)
Maturity Analysis - Parent - 2007							
Financial Assets							
Cash at bank and on hand	268,388	268,388	268,388	-	-	-	-
Other receivables	36,000	36,000	24,000	12,000	-	-	-
Amounts due from wholly owned controlled entities	694,860	694,860	-	-	-	-	694,860
TOTAL	999,248	999,248	292,388	12,000	-	-	694,860
Financial Liabilities							
Trade Creditors	284,506	284,506	284,506	-	-	-	-
Other payables and accruals	72,698	72,698	-	5,448	-	-	67,250
Loans	199,589	199,589	-	-	-	-	199,589
Amounts due to wholly owned controlled entities	680,166	680,166	-	-	-	-	680,166
Amounts received pursuant to prospectus	236,000	236,000	236,000	-	-	-	-
TOTAL	1,472,959	1,472,959	520,506	5,448	-	-	947,005
NET MATURITY	(473,711)	(473,711)	(228,118)	6,552	-	-	(252,145)

* The Board has received assurances from directors and other lenders that payment will not be required for the next twelve months or until a capital raising of sufficient funds is made.

28. FINANCIAL INSTRUMENTS DISCLOSURES (continued)
(d) General objectives, policies and processes (continued)

(iii) Interest rate risk

The Group does not have any exposure to fluctuations in interest rates that are inherent in financial markets as the loans are on fixed interest rate terms.

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below :

	NOTE	WEIGHTED AVERAGE INTEREST RATES	FLOATING INTEREST RATES	FIXED MATURING IN 1 YEAR TO 5 YEARS	NON-INTEREST BEARING	TOTAL
Consolidated -2008		$	$	$	$	$
Financial Assets						
Cash	9	4.50%	87,794	-	-	87,794
Receivables	10	0.00%	-	-	32,369	32,369
Total Assets			**87,794**	**-**	**32,369**	**120,163**
Financial Liabilities						
Payables	16	0.00%	-	-	585,341	585,341
Loans	17	8.00%	-	852,247	-	852,247
Total Liabilities			**-**	**852,247**	**585,341**	**1,437,588**
Net financial assets (liabilities)			**87,794**	**(852,247)**	**(552,972)**	**(1,317,425)**
Consolidated -2007						
Financial Assets						
Cash	9	4.88%	288,522	-	-	288,522
Receivables	10	0.00%	-	-	108,037	108,037
Total Assets			**288,522**	**-**	**108,037**	**396,559**
Financial Liabilities						
Payables	16	0.00%	-	-	777,571	777,571
Loans	17	8.00%	-	277,998	-	277,998
Total Liabilities			**-**	**277,998**	**777,571**	**1,055,569**
Net financial assets (liabilities)			**288,522**	**(277,998)**	**(669,534)**	**(659,010)**

The following sensitivity analysis is based on the interest rate risk exposure in existence at the balance sheet date. The analysis assumes all other variables remain constant.

Sensitivity Analysis		**Consolidated**			**Blue Ensign Technologies Limited**	
	Carrying amount	+3% interest rate Profit & Loss	-3% interest rate Profit & Loss	Carrying amount	+3% interest rate Profit & Loss	-3% interest rate Profit & Loss
Consolidated - 2008		$	$	$	$	$
Cash at bank	87,794	2,634	(2,634)	41,672	1,250	(1,250)
Loans	(852,247)	-	-	(675,644)	-	-
	(764,453)	2,634	(2,634)	(633,972)	1,250	(1,250)
Tax charge of 30%		(790)	790		(375)	375
Post tax profit increase / (decrease)		1,844	(1,844)		875	(875)
Consolidated - 2007						
Cash at bank	288,522	8,656	(8,656)	268,388	8,052	(8,052)
Loans	(277,998)	-	-	(199,589)	-	-
	10,524	8,656	(8,656)	68,799	8,052	(8,052)
Tax charge of 30%		(2,597)	2,597		(2,415)	2,415
Post tax profit increase / (decrease)		6,059	(6,059)		5,636	(5,636)

28. FINANCIAL INSTRUMENTS DISCLOSURES (continued)

(d) General objectives, policies and processes (continued)

(iv) Currency risk

The Group's policy is, where possible, to allow Group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where Group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them) cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

	Consolidated		Blue Ensign Technologies Limited	
The Group's exposure to foreign currency risk is as follows:	**2008**	**2007**	**2008**	**2007**
	US$	**US$**	**US$**	**US$**
Cash at bank	17,876	18,735	1,229	11,148
Loans and accruals	(268,469)	(77,699)	(123,762)	-
Net Exposure	(250,593)	(58,964)	(122,533)	11,148

The Group's most significant supplier, located in Australia, accounts for 79.7% of trade payables at 31 December 2008 .

The parent entity's most significant supplier, located in Australia, accounts for 99.2% of trade payables at 31 Deccember 2008.

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the balance sheet date.
The below analysis assumes all other variables remain constant.

Sensitivity Analysis		**Consolidated**			**Blue Ensign Technologies Limited**	
		+10%	-10%		+10%	-10%
		USD/AUD	USD/AUD		USD/AUD	USD/AUD
	Carrying amount	Profit & Loss	Profit & Loss	Carrying amount	Profit & Loss	Profit & Loss
	US$	AUD$	AUD$	US$	AUD$	AUD$
Consolidated - 2008						
Cash at bank	17,876	2,590	(2,590)	1,229	178	(178)
Loans and accruals	(268,469)	(38,893)	38,893	(123,762)	(17,929)	17,929
	(250,593)	(36,303)	36,303	(122,533)	(17,751)	17,751
Tax charge of 30%		10,891	(10,891)		5,325	(5,325)
Post tax profit increase / (decrease)		(25,412)	25,412		(12,426)	12,426
Consolidated - 2007						
Cash at bank	18,735	2,623	(2,623)	11,148	1,505	(1,505)
Loans and accruals	(77,699)	(10,878)	10,878	-	-	-
	(58,964)	(8,255)	8,255	11,148	1,505	(1,505)
Tax charge of 30%		2,477	(2,477)		(452)	452
Post tax profit increase / (decrease)		(5,779)	5,779		1,054	(1,054)

(e) Accounting policies

Accounting policies in relation to financial assets and liabilities and share capital are contained in Note 1.

29. CONTINGENT LIABILITIES

	Consolidated	
(a) Success fees	**2008**	**2007**
Blue Ensign Technologies Limited has entered into agreements with the directors and certain employees and consultants to pay a monthly retainer of which a portion is deferred and its payment is contingent upon the completion of a capital raising by any member of the Group which is sufficient to build a pilot plant.	**$** 1,798,990	**$** 1,323,413

(b) Rehabilitation commitments

It is a condition of the granting of the exploration licence that the Company rehabilitate the site before the licence expires. The directors are unable to quantify the expected cost or timing of the required rehabilitation.

(c) Royalty entitlements

Under the terms of the Assignment Agreement for the acquisition of the Rendall Intellectual Property, a royalty of 70% of net revenues generated from the licensing of the technology are payable to the estate of the late Mr John Rendall (vendor) and Mr Frank Ciotti (a director of the Company).

30. SEGMENT INFORMATION

The economic entity operates in one segment only being mineral exploration and associated technology development in Australia.

31. SUBSEQUENT EVENTS

There were no events subsequent to balance date which require disclosure in these accounts.

32. ADDITIONAL COMPANY INFORMATION

Principal Registered Office and Principal Place of Business
Suite 202, Angela House
30 - 36 Bay Street
DOUBLE BAY
NSW 2028

33. NOTES TO CASH FLOW STATEMENTS

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled in the related items in the statement of financial position as follows:

	Consolidated		Blue Ensign Technologies Limited	
	2008	2007	2008	2007
	$	$	$	$
Cash at bank and on hand	87,794	288,522	41,672	268,388
	87,794	288,522	41,672	268,388

(b) Businesses acquired

No acquisitions occurred during the year. During the previous year the Company purchased all of the share capital of Innovative Technologies Inc. Details of the acquisition are as follows:

	Consolidated	
	2008	2007
	$	$
Consideration		
Cash	-	5,898
Fair value of net assets acquired		
Assets	-	-
Cash	-	1,700
Liabilities	-	-
Goodwill on acquisition (refer note 15)	-	4,198
Net cash inflow on acquisition		
Cash balances acquired	-	1,700
Less cash consideration	-	(5,898)
	-	(4,198)

(c) Reconciliation of operating loss after income tax to net cash flows from operating activities

	Consolidated		Blue Ensign Technologies Limited	
	2008	2007	2008	2007
	$	$	$	$
Operating loss after income tax	(858,064)	(2,734,709)	(857,340)	(12,357,008)
Non cash items included in profit and loss				
Employee entitlement expense	16,064	11,737	5,519	2,850
Depreciation and amortisation	41,616	40,018	4,496	2,898
Diminution investments in subsidiaries	-	-	-	10,431,351
Diminution loans to subsidiaries	-	-	397,518	694,860
Foreign exchange loss	(11,763)	-	(4,813)	-
Gain on disposal of property, plant and equipment	(1,148)	-	(1,148)	-
Impairment of goodwill	-	4,198	-	-
Interest charged on loans unpaid	73,346	3,305	45,602	2,479
Management fees	-	-	(107,245)	-
Option expense	(262,068)	418,753	5,380	151,305
Unrealised foreign exchange loss	58,038	20,685	27,132	20,933
Changes in assets and liabilities				
(Increase) in other receivables	39,668	(45,274)	23,516	(12,001)
(Decrease) Increase in trade creditors, other creditors and accruals	38,376	122,639	(110,773)	228,626
Net cash used in operating activities	(865,935)	(2,158,648)	(572,156)	(833,707)