BLUE ENSIGN TECHNOLOGIES LIMITED
AND CONTROLLED ENTITIES

A.C.N. 086 332 836

FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

The directors of Blue Ensign Technologies Limited submit herewith the annual financial report for the financial year ended 31 December 2010. 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:

John Blumer (Non-Executive Chairman)

John Blumer is an experienced independent petroleum consultant, with 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 in 1990. He is specifically responsible for all petroleum related activities of the company, specialising in exploration management, valuation of exploration and production interests and the preparation of statutory reports. He is a member of the VALMIN Committee of the AusIMM, advising ASX and ASIC with respect to mineral valuation issues, and is past-President of the Earth Resources Foundation of the University of Sydney.

Darryl Smith (Executive Managing Director)

Darryl Smith has a PhD in Chemical Engineering and is an experienced CEO with an impressive record of plant design, construction and commissioning; innovative use of technology; organisation restructuring and profit centre management within major companies, including Shell, Esso, Origin Energy and Normandy Mining. He has nearly 40 years' experience in executive management, operations management and plant design in refining, chemical engineering and metals processing. He is also very experienced in innovative developments in plant technology and in designing, constructing and operating pilot and demonstration plants and in developing and commissioning major process plants.

Frank Ciotti (Non-Executive Director)

Frank Ciotti is a Certified Public Accountant with approximately 43 years of financial and management experience. Frank graduated Magna Cum Laude with a Business Degree from the University of California at Los Angeles. Frank is currently retired focused on managing his own financial investments.

Colin M Thomas (Non-Executive Director)

Colin M Thomas is a senior geological consultant who has nearly 50 years of experience in a diversity of assignments in Australia and in many locations in Asia Pacific and Africa. Colin is a Director and Senior Geologist with RobSearch Australia, with whom he has worked since 1970. He has extensive experience in resource audits and valuations.

Cole Nelson (Non-Executive Director)

Cole Nelson has more than 30 years of experience in the hydrocarbon processing industry, including research and development, pre- commissioning and commissioning, manufacturing operations, design engineering and project management, and economics and plant and product optimisation. He was employed by UOP for more than 25 years, rising from Process Development Engineer to Commercial Manager, and worked in more than 20 countries on five continents.

Grahame Clegg (Company Secretary)

Grahame Clegg was appointed to the position of Company Secretary on 2 July 2007 and has over 40 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 (the Group) 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

During the year the Group continued to develop its Rendall Process for extraxting oil from shale oil deposits and continued to seek adequate funding to continue its operations.

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

	Consolidated	
	2010	**2009**
	$	**$**
Net loss after income tax	(939,955)	(703,382)

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 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 2010.

Share Options

During the financial year no share options were granted to employees, consultants and directors. Since the end of the financial year no further options have been issued.

15,617,500 options to take up ordinary shares in Blue Ensign Technologies Ltd remain unexercised at 31 December 2010.

No options were forfeited during the year.

No options lapsed during the year.

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.

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 4.

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**
F Ciotti	6	6	1	1
J Blumer	6	6	-	-
C M Thomas	6	6	-	-
C Nelson	6	5	1	1
D Smith	6	6	1	1

Signed in accordance with a resolution of the directors made pursuant to s. 298(2) of the Corporations Act 2001.

On behalf of the Directors

J BLUMER
Director

Sydney, 30 September 2011

AUDITOR'S INDEPENDENCE DECLARATION

BLUE ENSIGN TECHNOLOGIES LIMITED
AND CONTROLLED ENTITIES
DIRECTORS' DECLARATION

In accordance with a resolution of directors, I state that 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

(ii) Giving a true and fair view of the company's and the consolidated entity's financial position as at 31 December 2010 and of their performance for the year ended on that date .

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

(b) There are reasonable grounds to believe, having regard to the matters set out in Note 1, that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board of Directors

J BLUMER
Director

Sydney, 30 September 2011

BLUE ENSIGN TECHNOLOGIES LIMITED
AND CONTROLLED ENTITIES
STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	Note	Consolidated	
		2010	**2009**
		$	$
Revenue and other income	5	**112,698**	118,523
Administration expenses		**(103,520)**	(84,152)
Borrowing costs	6	**(193,728)**	(133,315)
Corporate costs		**(6,278)**	(33,584)
Depreciation and amortisation expense	6	**(42,055)**	(42,949)
Employee benefits expense and directors remuneration	6	**(605,709)**	(447,916)
Exploration expenses		**(75,303)**	(24,749)
Marketing expenses		**(580)**	(233)
Technology development costs		**(25,278)**	(203,633)
Travel expenses		**(37,485)**	(10,563)
Other expenses		**(11,441)**	(14,023)
Loss before income tax benefit		**(988,679)**	(876,594)
Income tax benefit	7	**48,724**	173,212
Net loss after related income tax benefit	21	**(939,955)**	(703,382)
Other comprehensive income			
Foreign currency translation gains/(losses)		**310**	208
Other comprehensive income before income tax expense		**310**	208
Income tax expense		**-**	-
Other comprehensive income for period		**310**	**208**
TOTAL COMPREHENSIVE INCOME FOR PERIOD		**(939,645)**	(703,174)
Total comprehensive income attributable to members of Blue Ensign Technologies Ltd		**(939,645)**	(703,174)

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

BLUE ENSIGN TECHNOLOGIES LIMITED
AND CONTROLLED ENTITIES
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
CURRENT ASSETS			
Cash and cash equivalents	9	15,496	21,859
Trade and other receivables	10	74,920	56,852
TOTAL CURRENT ASSETS		90,416	78,711
NON-CURRENT ASSETS			
Trade and other receivables	11	40,000	50,000
Property, plant and equipment	12	5,435	7,173
Exploration expenditure	13	650,000	650,000
Intangible assets	14	777,405	817,722
TOTAL NON-CURRENT ASSETS		1,472,840	1,524,895
TOTAL ASSETS		1,563,256	1,603,606
CURRENT LIABILITIES			
Trade and other payables	15	1,308,067	810,251
Interest bearing liabilities	16	1,609,027	1,235,842
TOTAL CURRENT LIABILITIES		2,917,094	2,046,093
NON-CURRENT LIABILITIES			
Provisions	17	5,839	3,358
TOTAL NON-CURRENT LIABILITIES		5,839	3,358
TOTAL LIABILITIES		2,922,933	2,049,451
NET LIABILITIES		(1,359,677)	(445,845)
EQUITY			
Issued capital	18	5,732,784	5,732,788
Reserves	20	212,695	186,568
Accumulated losses	21	(7,305,156)	(6,365,201)
TOTAL EQUITY		(1,359,677)	(445,845)

The above statement of financial position should be read in conjunction with the accompanying notes.

BLUE ENSIGN TECHNOLOGIES LIMITED
AND CONTROLLED ENTITIES
STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

CONSOLIDATED	**Equity**	**Reserves**	**Accumulated losses**	**Total attributable to equity holders of the entity**
	$	**$**	**$**	**$**
Balance at 1 January 2009	5,732,788	156,998	(5,661,819)	227,967
Amounts added to option expense reserve	-	29,362	-	29,362
Other comprehensive income	-	208	-	208
(Loss) for the year	-	-	(703,382)	(703,382)
Balance at 31 December 2009	5,732,788	186,568	(6,365,201)	(445,845)
Amounts added to option expense reserve	-	25,817	-	25,817
Other comprehensive income	-	310	-	310
(Loss) for the year	-	-	(939,955)	(939,955)
Balance at 31 December 2010	**5,732,788**	**212,695**	**(7,305,156)**	**(1,359,673)**

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

BLUE ENSIGN TECHNOLOGIES LIMITED
AND CONTROLLED ENTITIES
STATEMENT OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		-	-
Payments to suppliers and employees		(438,302)	(618,310)
R&D tax offset rebate received		48,724	173,212
Interest received		-	3,805
Other income		30	-
Net cash used in operating activities	32 (b)	(389,548)	(441,293)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for other property, plant and equipment		-	-
Proceeds from sale of property, plant and equipment		-	-
Proceeds from sale of investments		-	-
Refunds from and (payments for) security deposits		10,000	(20,000)
Net cash provided by/(used in) investing activities		10,000	(20,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		373,185	383,595
Proceeds of share issues		-	-
Amounts received pursuant to prospectus repaid		-	-
Share issue costs		-	-
Net cash provided by financing activities		373,185	383,595
NET DECREASE IN CASH AND CASH EQUIVALENTS		(6,363)	(77,698)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		21,859	87,794
Effect of exchange rates on cash holdings in foreign currencies		-	11,763
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	32 (a)	15,496	21,859
		-	-

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

NOTE

1. SUMMARY OF ACCOUNTING POLICIES

Corporate information

Blue Ensign Technologies Limited (the parent) is a company limited by shares incorporated in Australia.

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.

	2010	2009
	$	$
Net loss for the year	(939,955)	(703,382)
Negative cash flows from operations for the year	(389,548)	(441,293)
Net liabilities as at 31 December	(1,359,677)	(445,845)
Cash balances as at 31 December	15,496	21,859
Amounts received from directors during the year	311,070	351,548
Amounts received from shareholders during the year	62,115	32,047

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 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 sheet date, the Group had net liabilities of $1,422,818 (2010 - $445,845). The amount of $2,854,737 (2010 - $2,004,443) is due to the directors of the company and other related parties. The Board has received assurances from the directors and other related parties that payment will not be required for the next twelve months from the date of this report or until a capital raising of sufficient funds is made.

The directors and certain associated parties have continued to support the company by advancing funds to the Group. Since the end of the financial year a further $110,844 has been received.

The Company's ability to continue as a going concern and undertake activities towards the development of the Rendall Process and development and commercialization 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 have committed to supporting the Group until such time as the refinacing of the Group is attained. Having regard to the above factors, at the date of this financial report the directors conclude that the Company 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.

Adoption of New and Revised Accounting Standards

During the current year the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Blue Ensign Technologies Ltd.

Corporations Regulations 2M.3.01

This regulation states that, where paragraph 295 (2) (b) of the Act applies to a parent entity, only limited disclosures are required to be made in a note to the accounts in respect of the parent entity.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Disclosure impact

In accordance with the regulation, these accounts are presented with consolidated amounts only. The disclosures required in respect of the parent entity are contained in Note 4.

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 for their use or sale.

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. Cash on hand, cash in banks and investments in money market instruments are shown as current assets in the statement of financial position. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(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

(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.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Policies (continued)

(h) Employee Entitlements (continued)

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)

Significant 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 rate 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

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 the Australian dollar (A$). The United States subsidiary's functional currency is the United States dollar (US$) 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.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Policies (continued)

(p) Impairment of Assets (continued)

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.

(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.

<u>Tax consolidation</u>

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

(r) Intangible Assets

<u>Goodwill</u>

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.

<u>Rendall Process Intellectual Property</u>

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.

(s) 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.

(t) 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.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Policies (continued)

(t) Principles of Consolidation (continued)

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 Ltd less any impairment charges.

(u) 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.

(v) Receivables

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

(w) 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.

(x) Revenue Recognition

<u>Sale of Goods and Disposal of Assets</u>

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.

<u>Rendering of Services</u>

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

<u>Interest Income</u>

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

<u>Other Income</u>

Other income is recognised as it is earned.

(y) 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)

New Accounting Standards for Application in Future Periods

Certain new accounting standards have been published that are not mandatory for 31 December 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB	Summary	Impact on group
Operative date 1 February 2010 with an application date for the group of 1 January 2011.		
AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132]	These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments.	These amendments are not expected to impact the Group.
Operative date 1 July 2010 with an application date for the group of 1 January 2011.		
AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB	This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19.	This standard is not expected to impact the Group.
AASB 2010–3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139	This standard makes amendments - requiring that recognition and/or adjustment of contingent consideration for acquisitions preceding 1 July 2009 be recognised against the cost of acquisition - clarifying the accounting for replacement share-based payments awarded to the acquiree's employees as part of the cost of the combination service, or in the case of non-replaced and unvested share-based payments of the acquiree that do not form part of the exchange, an allocation to both the cost of acquisition and post-combination services on the basis of a market-based measure; and - making sundry transitional amendments to various Standards	These amendments are not expected to impact the Group.
Operative date 1 July 2010 with an application date for the group of 1 January 2011.		
AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments	This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred.	This Interpretation is not expected to impact the Group.
Operative date 1 January 2011 with an application date for the group of 1 January 2011.		
AASB 124: Related Party Disclosures	This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard.	No changes are expected to materially affect the Group.
AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052	This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures.	These amendments are not expected to impact the Group.
AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14]	This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.	This standard is not expected to impact the Group.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards for Application in Future Periods (continued)

AASB	Summary	Impact on group
Operative date 1 January 2011 with an application date for the group of 1 January 2011.		
AASB 2010–4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]	This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include: - clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements - adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments; - amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes; - adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and - making sundry editorial amendments to various Standards and Interpretations.	This standard is not expected to impact the Group.
Operative date 1 July 2013 with an application date for the group of 1 January 2014.		
AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010–2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052	This Standard establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements: - Tier 1: Australian Accounting Standards; and - Tier 2: Australian Accounting Standards — Reduced Disclosure Requirements.	This Standard deems the Group to be a Tier 1 entity and hence there is no accounting impact to be considered going forward.
Operative date 1 July 2013 with an application date for the group of 1 January 2014.		
AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9	The changes made to accounting requirements include: - simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value; - simplifying the requirements for embedded derivatives; - removing the tainting rules associated with held-to-maturity assets; - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost; - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and - reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows.	Implementation may be required

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 these 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.

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 forms the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 BLE 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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(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 $40,317 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 25. 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.

4. PARENT COMPANY INFORMATION

The following information has been extracted from the books and records of the parent company and has been prepared in accordance with Accounting Standards.

	2010	2009
STATEMENT OF FINANCIAL POSITION	$	$
ASSETS		
Current assets	9,668	20,772
Non current assets	1,440,700	1,487,788
TOTAL ASSETS	1,450,368	1,508,560
LIABILITIES		
Current liabilities	2,587,191	2,058,075
Non current liabilities	1,187	741
TOTAL LIABILITIES	2,588,378	2,058,816
EQUITY		
Issued capital	24,375,157	24,375,157
Share based payments reserve	211,864	186,047
Accumulated losses	(25,725,031)	(25,111,460)
TOTAL EQUITY	(1,138,010)	(550,256)
	-	-
STATEMENT OF COMPREHENSIVE INCOME		
Total loss	(751,652)	(530,124)
TOTAL COMPREHENSIVE INCOME (LOSS)	(751,652)	(530,124)

Guarantees

Blue Ensign Technologies Ltd has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiary.

4. PARENT COMPANY INFORMATION (CONTINUED)

Contingent liabilities

At 31 December 2010, Blue Ensign Technologies Ltd had the following contingent liabilities.

Success fees	**2010** **$**	**2009** **$**
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.	267,240	232,727
	Number	**Number**
In addition, each person supplying Tier 3 Funding (by deferral of fees and making of loan) will be entitled to receive 5 year options with an exercise price of the greater of 50% of the issue price shares or 20 cents on the basis of 1 option for every 3.5 cents contributed to the funding prior to 1 January 2010. The options to be granted after completion of Tier 1 Funding.	36,160,352	11,370,280
From 1 January 2010 for every USD10,000 contributed to funding each person will receive 325,000 warrants to be issued on a date to be determined by the Board with a 5 year term at a discount of 50% of the price at which shares are issued to investors in a subsequent fundraising.	14,210,649	-

Contractual commitments

At 31 December 2010, Blue Ensign Technologies Ltd had not entered into any contractual commitments for the acquisition of property, plant and equipment.

5. REVENUE

	Consolidated	
	2010	**2009**
Revenue	**$**	**$**
Sales revenue	-	-
	-	**-**
Other income		
Interest - other entities	-	3,805
Foreign exchange gains	112,668	114,718
Other income	30	-
	112,698	118,523

6. LOSS FROM ORDINARY ACTIVITIES

Loss from ordinary activities before income tax includes the following items of expense:

	Consolidated	
Expenses	**2010**	**2009**
	$	**$**
Depreciation and amortisation expense		
Amortisation of intangible assets	40,317	40,316
Depreciation of Property, plant and equipment	1,738	2,633
Total depreciation and amortisation expense	42,055	42,949
Employment expenses and directors remuneration		
Base salary and directors fees	550,265	405,943
Superannuation	13,470	17,364
Share based expense (Note 25(a))	25,817	29,362
Other employment costs	162	443
Transfers to provisions:		
- Employee entitlements	15,995	(5,196)
	605,709	447,916
Less amounts charged to technology development costs	-	-
Total employment expense	605,709	447,916
	-	-
Other expenses		
Interest expense	193,728	133,315

7. INCOME TAX

	Consolidated 2010 $	Consolidated 2009 $
(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:		
Loss for year before income tax benefit	**(988,679)**	(876,594)
Income tax benefit calculated at 30%	**(296,604)**	(262,978)
Temporary differences and tax losses not recognised	**296,604**	262,850
Other permanent differences		
- Non deductible expenses		
- Entertainment	**-**	128
R&D tax offset rebate received	**48,724**	173,212
Income tax benefit attributable to loss	**48,724**	173,212
(b) Income tax expense on other comprehensive income		
The prima facie income tax benefit on pre-tax other comprehensive income reconciles to the income tax benefit in the financial statements as follows:		
Other comprehensive income for year	**310**	208
Income tax benefit calculated at 30%	**93**	62
Temporary differences and tax losses not recognised (refer Note 7(d))	**(93)**	(62)
Income tax benefit attributable to other comprehensive income	**-**	-
(c) Adjusted franking account balance	**-**	-

(d) Deferred tax balances not recognised

Calculated at 30% not brought to account as assets:

Consolidated	Balance Sheet 2010 $	Balance Sheet 2009 $	Income Statement 2010 $	Income Statement 2009 $
Deferred tax assets relating to tax losses				
Revenue tax losses available for offset against future tax income	**3,132,698**	2,800,136	**332,562**	193,551
Capital tax losses available for offset against future tax income	**4,543,963**	4,543,963	**-**	-
Net deferred tax asset not recognised in respect of tax losses	**7,676,661**	7,344,099	**332,562**	193,551
Deferred tax assets relating to temporary differences				
Provision for amortisation of intangibles	**52,030**	39,935	**12,095**	12,095
Provision for employee entitlement	**13,440**	8,467	**4,973**	(1,559)
Accruals	**9,360**	7,500	**1,860**	(2,400)
	74,830	55,902	**18,928**	8,136
Deferred tax liabilities relating to temporary differences				
Difference between book and tax values of fixed assets	**-**	(116)	**116**	12
	-	(116)	**116**	12
Net deferred tax asset not recognised in respect of temporary differences	**74,830**	55,786		

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.

8. AUDITORS' REMUNERATION

	Consolidated 2010 $	Consolidated 2009 $
Remuneration of Ernst & Young for :		
Audit and review of the financial report	37,100	51,542
Review of tax return	-	-
Total auditors remuneration	37,100	51,542

9. CASH AND CASH EQUIVALENTS

	2010	2009
Cash at bank and on hand	15,496	21,859

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

10. CURRENT TRADE AND OTHER RECEIVABLES

	2010	2009
GST receivable	21,779	14,584
Prepayments	53,141	42,268
	74,920	56,852

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

	2010	2009
Security deposits	40,000	50,000

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

12. PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2010 $	Consolidated 2009 $
Plant & Equipment	34,737	34,737
Less accumulated depreciation	(29,302)	(27,564)
Net Plant & Equipment	5,435	7,173

	Consolidated Plant & Equipment $	Consolidated Total $
Gross Carrying Amount		
Balance at 31 December 2008	34,737	34,737
Additions	-	-
Balance at 31 December 2009	34,737	34,737
Additions	-	-
Balance at 31 December 2010	34,737	34,737
Accumulated Depreciation		
Balance at 31 December 2008	24,931	24,931
Depreciation Expense	2,633	2,633
Balance at 31 December 2009	27,564	27,564
Depreciation Expense	1,738	1,738
Balance at 31 December 2010	29,302	29,302
Net Book Value		
Balance at 31 December 2009	7,173	7,173
Balance at 31 December 2010	5,435	5,435

	Consolidated 2010 $	Consolidated 2009 $
Aggregate depreciation allocated during the year:		
- Plant and equipment	1,738	2,633
	1,738	2,633

13. EXPLORATION EXPENDITURE

	2010	2009
Exploration expenditure	650,000	650,000

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

Movement	2010	2009
Balance at 1 January	650,000	650,000
Additions	-	-
Amounts written off	-	-
Balance at 31 December	650,000	650,000

14. INTANGIBLE ASSETS

	Consolidated 2010 $	Consolidated 2009 $
Rendall Process Intellectual Property	950,838	950,838
Less amortisation	(173,433)	(133,116)
Net	777,405	817,722
Goodwill on consolidation	437,167	437,167
Less amortisation	(437,167)	(437,167)
Net	-	-
Total Intangible Assets	777,405	817,722

Movement in written down value

	Rendall Process IP $	Goodwill $
2009		
Balance at 31 December 2008	858,038	-
Amortisation	(40,316)	-
Balance at 31 December 2009	817,722	-
2010		
Balance at 31 December 2009	817,722	-
Amortisation	(40,317)	-
Balance at 31 December 2010	777,405	-

15. CURRENT TRADE AND OTHER PAYABLES

	Consolidated 2010 $	Consolidated 2009 $
Unsecured:		
Trade payables	4,911	4,350
Other payables and accruals *	1,245,710	768,601
GST creditors	18,484	12,433
Annual leave entitlements	38,962	24,867
	1,308,067	810,251

* Accruals include accrued interest on directors fees 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.

16. CURRENT INTEREST BEARING PAYABLES

	2010 $	2009 $
Loans from directors (Note 26(f))	1,081,001	773,935
Loans from related parties	528,026	461,907
	1,609,027	1,235,842

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.

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

17. NON CURRENT PROVISIONS

	2010 $	2009 $
Long service leave	5,839	3,358
Movement		
Balance at beginning of financial year	3,358	2,453
Amounts provided during the year	2,481	905
Balance at end of financial year	5,839	3,358

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.

18. SHARE CAPITAL

	Consolidated 2010 $	2009 $
127,532,628 fully paid ordinary shares (2009: 127,532,628)	5,882,279	5,882,279
Less share issue costs	(149,495)	(149,491)
Fully paid ordinary shares carry one vote per share and carry the right to dividends.	5,732,784	5,732,788

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.

19. OPTIONS

	Expiry Date	Exercise Price	Number on issue 31 December 2009	Granted during year	Forfeited / lapsed during year	Exercised during year	Number on issue 31 December 2010
Unlisted	30.04.2011 (Note (a))	0.50	12,350,000	-	-	-	12,350,000
	30.04.2011 (Note (b))	0.50	3,067,500	-	-	-	3,067,500
	30.06.2012 (Note (c))	0.30	200,000	-	-	-	200,000
Total options on issue			15,617,500	-	-	-	15,617,500

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

20. RESERVES

	Consolidated 2010 $	2009 $
Options expense reserve	211,864	186,047
Foreign currency translation reserve	831	521
	212,695	186,568
Option expense reserve		
Balance at beginning of financial year	186,047	156,685
Value of options expensed during year to:		
Employees and consultant	-	-
Directors	25,817	29,362
Balance at end of financial year	211,864	186,047

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

	2010 $	2009 $
Balance at beginning of financial year	521	313
Exchange rate fluctuation during year	310	208
Balance at end of financial year	831	521

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.

21. ACCUMULATED LOSSES

	Consolidated 2010 $	Consolidated 2009 $
Balance at beginning of financial year	(6,365,201)	(5,661,819)
Net losses for year	(939,955)	(703,382)
Balance at end of financial year	(7,305,156)	(6,365,201)

22. PARTICULARS RELATING TO CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Ownership Interest 2010 %	Ownership Interest 2009 %
Controlled entities			
Australian Thermal Solutions Pty Ltd	Australia	100	100
Queensland Shale Oil Limited	Australia	100	100
RP International Pty Ltd	Australia	100	100
Innovative Technologies Inc	USA	100	100

23. COMMITMENTS FOR EXPENDITURE

	Consolidated 2010 $	Consolidated 2009 $
(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	100,000
Later than 1 year but not later than 5 years	-	-
	100,000	100,000

24. KEY MANAGEMENT PERSONNEL DISCLOSURES

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

F Ciotti
J Blumer
C M Thomas
C Nelson
D Smith

(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 2010

	Short term benefits			Post employment benefits	Equity based benefits		
	Salary $	Director's Fees $	Retainer $	Superannuation $	Options $	Total $	Performance related %
F Ciotti	-	25,000	48,686	-	-	73,686	0.00%
J Blumer	-	25,000	72,000	-	-	97,000	0.00%
C M Thomas	-	25,000	-	-	-	25,000	0.00%
C Nelson	-	25,000	-	-	-	25,000	0.00%
D Smith	-	25,000	60,000	-	-	85,000	0.00%
	-	125,000	180,686	-	-	305,686	

Details of Directors' remuneration for the year ended 31 December 2009

	Salary $	Director's Fees $	Retainer $	Superannuation $	Options $	Total $	Performance related %
F Ciotti	-	25,000	61,462	-	-	86,462	0.00%
J Blumer	-	25,000	48,000	-	-	73,000	0.00%
C M Thomas (app. 13/05/2009)	-	16,667	-	-	-	16,667	0.00%
C Nelson (app. 29/09/2009)	56,340	8,333	-	-	-	64,673	0.00%
D Smith (app. 29/09/2009)	-	8,333	20,000	-	-	28,333	0.00%
C Ryan (resigned 13/05/2009)	41,667	60,000	-	3,750	29,362	134,779	0.00%
	98,007	143,333	129,462	3,750	29,362	403,914	

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

24. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

	Consolidated 2010 $	Consolidated 2009 $
(d) Transactions with associates of directors		
LOANS		
Loans from key management personnel are disclosed in Note 26(d).		
Amounts received during year.	311,070	351,548
SALARIES AND DIRECTORS FEES ACCRUED		
The Group accrued salaries and directors fees due to key management personnel .	255,686	115,257
INTEREST ACCRUED		
The Group accrued interest on loans and accrued fees from key management personnel are disclosed in Note 26(e) and 26(h) at the rate of 8% per annum).		
Interest on loans	70,348	35,654
Interest on accrued fees	41,728	17,053

25. 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:

	2010 $	2009 $
Expense arising from equity-settled share-based payment transactions		
BLE Employee Share Option Plan	25,817	29,362
QSO Employee Share Option Plan	-	-
Total expense arising from share-based payment transactions (Note 20)	25,817	29,362

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% (2009 - 0%) probability that this funding option will be pursued as QSO is 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 2010 and 2009.

BLE Employee Share Option Plan

Under the BLE 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 BLE 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 2010 is 1.5 years (2009: 2.5 years).
The weighted average fair value of options granted during the year was nil (2009: $nil).
The range of exercise prices for options outstanding at the end of the year was $0.30 to $0.50.
No options were granted in the current year or in the prior year.
The options issued are on an equity settled basis. There are no cash settlement alternatives.

Summary of options granted under the BLE 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:

	2010 Number	2010 WAEP	2009 Number	2009 WAEP
Outstanding at the beginning of the year	1,250,000	0.30	1,250,000	0.30
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,250,000	0.30	1,250,000	0.30
Exercisable at the end of the year	1,000,000		750,000	

The outstanding balance as at 31 December 2010 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.

25. SHARE BASED PAYMENTS (CONTINUED)

(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 2010 is 1.42 years (2009: 2.42 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 (2009: $nil).
No options were granted in the current year or in the prior year.
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:

	2010 Number	2010 WAEP	2009 Number	2009 WAEP
Outstanding at the beginning of the year	3,450,000	1.00	3,450,000	1.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,450,000	1.00	3,450,000	1.00
Exercisable at the end of the year	2,760,000		2,070,000	

The outstanding balance as at 31 December 2010 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.

26. RELATED PARTY DISCLOSURES

(a) Directors

The directors of Blue Ensign Technologies Limited during the year were :
F Ciotti
J Blumer
C M Thomas
C Nelson
D Smith

(b) Remuneration of directors and key management personnel

Details of remuneration of directors are disclosed in Note 24 to the financial statements.

At 31 December 2010 there were no key management personnel other than directors.

(c) Equity interests in related parties

Equity interests in controlled entities

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 22 to the financial statements.

26. RELATED PARTY DISCLOSURES (CONTINUED)

	Consolidated 2010 $	Consolidated 2009 $
(d) Loans from directors during the year (Note 16)		
During the year loans were made to the group by its directors. The amounts loaned during the year are:		
Frank Ciotti	**35,465**	79,736
John Blumer	**115,000**	60,000
Colin M Thomas	**155,605**	191,756
Robsearch Pty Ltd	**5,000**	20,056
(e) Interest on loans from directors (Note 16)		
During the year interest was accrued on loans were made to the group by its directors:		
Frank Ciotti	**26,062**	8,006
John Blumer	**21,458**	14,569
Colin M Thomas	**20,223**	10,861
Robsearch Pty Ltd	**2,605**	2,218
(f) Loans from directors - amounts outstanding at year end (Note 16)		
During the year loans were made to the group by its directors. The amounts outstanding, which include accumulated accrued interest, at 31 December are:		
Frank Ciotti	**291,864**	245,272
John Blumer	**374,152**	237,694
Colin M Thomas	**378,445**	202,617
Robsearch Pty Ltd	**36,540**	28,935
(g) Accrued directors fees, salaries and retainers included in other payables and accruals (Note 15)		
During the year directors fees and salaries were accrued in respect of directors:		
Frank Ciotti	**73,686**	56,924
John Blumer	**97,000**	25,000
Colin M Thomas	**25,000**	16,667
Cole Nelson	**25,000**	8,333
Darryl Smith	**35,000**	8,333
(h) Interest on accrued directors fees, salaries and retainers included in other payables and accruals (Note 15)		
During the year interest was accrued on loans made to the group by its directors:		
Frank Ciotti	**19,786**	12,644
John Blumer	**14,154**	3,847
Colin M Thomas	**2,354**	394
Cole Nelson	**3,391**	84
Darryl Smith	**2,043**	84
(i) Accrued directors fees, salaries and retainers included in other payables and accruals - total amounts accrued (Note 15)		
During the year directors fees, salaries, retainers and interest were accrued in respect of directors:		
Frank Ciotti	**266,673**	193,418
John Blumer	**223,054**	63,900
Colin M Thomas	**44,414**	17,060
Cole Nelson	**57,236**	31,754
Darryl Smith	**45,460**	8,417

(j) Entitlement to options on completion of Tier 1 Funding

During the year the directors earned entitlements to receive 5 year options at an exercise price of the greater of 50% of the issue price shares or 20 cents to be granted on completion of Tier 1 Funding:	Number 2010	Number 2009
Movement during year		
Frank Ciotti	**-**	1,881,634
John Blumer	**-**	1,714,286
Colin M Thomas	**-**	2,428,571
Cole Nelson	**-**	571,429
Darryl Smith	**-**	-

26. RELATED PARTY DISCLOSURES (CONTINUED)

(k) Entitlement to options on completion of Tier 1 Funding

During the year the directors earned entitlements to receive 5 year options at an exercise price of at an exercise price of the greater of 50% of the issue price shares or 20 cents to be granted on completion of Tier 1 Funding:	Number 2010	Number 2009
Balance at year end		
Frank Ciotti	**1,881,634**	1,881,634
John Blumer	**1,714,286**	1,714,286
Colin M Thomas	**2,428,571**	2,428,571
Cole Nelson	**571,429**	571,429
Darryl Smith	**-**	-

(l) Entitlement to warrants on completion of Tier 1 Funding

During the year the directors earned entitlements to receive 325,000 warrants for every US$10,000 contributed to funding to be issued on a date to be determine by the Board with a 5 year term at a discount of 50% of the price at which shares are issued to investors in a subsequent fundraising:

Movement during year		
Frank Ciotti	**1,136,363**	**-**
John Blumer	**3,955,770**	**-**
Colin M Thomas	**5,129,470**	**-**
Cole Nelson	**-**	**-**
Darryl Smith	**329,648**	**-**

(m) Entitlement to warrants on completion of Tier 1 Funding

During the year the directors earned entitlements to receive 325,000 warrants for every US$10,000 contributed to funding to be issued on a date to be determine by the Board with a 5 year term at a discount of 50% of the price at which shares are issued to investors in a subsequent fundraising:

Balance at year end		
Frank Ciotti	**1,136,363**	**-**
John Blumer	**3,955,770**	**-**
Colin M Thomas	**5,129,470**	**-**
Cole Nelson	**-**	**-**
Darryl Smith	**329,648**	**-**

27. FINANCIAL INSTRUMENTS DISCLOSURES

(a) Capital Management

The Group considers its capital to comprise its ordinary share capital and accumulated losses.

The Groups 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

27. 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 possinle 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	
	2010	**2009**
	$	**$**
Security Deposits	40,000	50,000
	40,000	50,000

(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 related parties 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.

<u>Maturity analysis of financial assets and liability based on contractual obligations.</u>

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.

Maturity Analysis - Consolidated - 2010	**Carrying Amount $**	**Contractual Cash flows $**	**< 6 mths $**	**6- 12 mths $**	**On demand * $**	**1-3 years $**	**> 3 years $**
Financial Assets							
Cash at bank and on hand	15,496	15,496	15,496	-	-	-	-
Other receivables	21,779	21,779	21,779	-	-	-	-
Security deposits	40,000	40,000	-	-	-	40,000	-
TOTAL	77,275	77,275	37,275	-	-	40,000	-
Financial Liabilities							
Trade Creditors	4,911	4,911	4,911	-	-	-	-
Other payables and accruals	1,303,156	1,303,156	-	80,225	1,222,931	-	-
Loans	1,609,027	1,609,027	-	-	1,609,027	-	-
TOTAL	2,917,094	2,917,094	4,911	80,225	2,831,958	-	-
NET MATURITY	(2,839,819)	(2,839,819)	32,364	(80,225)	(2,831,958)	40,000	-

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

27. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(ii) Liquidity risk (continued)

Maturity Analysis - Consolidated - 2009	**Carrying Amount $**	**Contractual Cash flows $**	**< 6 mths $**	**6- 12 mths $**	**On demand * $**	**1-3 years $**	**> 3 years $**
Financial Assets							
Cash at bank and on hand	21,859	21,859	21,859	-	-	-	-
Other receivables	14,584	14,584	14,584	-	-	-	-
Security deposits	50,000	50,000	-	-	-	50,000	-
TOTAL	86,443	86,443	36,443	-	-	50,000	-
Financial Liabilities							
Trade Creditors	4,350	4,350	4,350	-	-	-	-
Other payables and accruals	805,902	805,902	-	80,225	725,677	-	-
Loans	1,235,842	1,235,842	-	-	1,235,842	-	-
TOTAL	2,046,094	2,046,094	4,350	80,225	1,961,519	-	-
NET MATURITY	(1,959,651)	(1,959,651)	32,093	(80,225)	(1,961,519)	50,000	-

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

(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 :

Consolidated -2010	NOTE	WEIGHTED AVERAGE INTEREST RATES	FLOATING INTEREST RATES	FIXED MATURING IN 1 YEAR TO 5 YEARS	NON-INTEREST BEARING	TOTAL
Financial Assets						
Cash	9	4.50%	15,496	-	-	15,496
Total Assets			**15,496**	**-**	**-**	**15,496**
Financial Liabilities						
Payables	15	8.00%	-	1,206,950	101,117	1,308,067
Loans	16	8.00%	-	1,609,027	-	1,609,027
Total Liabilities			**-**	**2,815,977**	**101,117**	**2,917,094**
Net financial assets (liabilities)			**15,496**	**(2,815,977)**	**(101,117)**	**(2,901,598)**
Consolidated -2009						
Financial Assets						
Cash	9	4.50%	21,859	-	-	21,859
Total Assets			**21,859**	**-**	**-**	**21,859**
Financial Liabilities						
Payables	15	8.00%	-	725,677	84,575	810,252
Loans	16	8.00%	-	1,235,842	-	1,235,842
Total Liabilities			**-**	**1,961,519**	**84,575**	**2,046,094**
Net financial assets (liabilities)			**21,859**	**(1,961,519)**	**(84,575)**	**(2,024,235)**

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.

27. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(iii) Interest rate risk (continued)

Sensitivity Analysis	Consolidated		
	Carrying amount	+3% interest rate	-3% interest rate
Consolidated - 2010		Profit & Loss	Profit & Loss
Cash at bank	15,496	465	(465)
	15,496	465	(465)
Tax charge of 30%		(139)	139
Post tax profit increase / (decrease)		326	(326)

Sensitivity Analysis	Consolidated		
	Carrying amount	+3% interest rate	-3% interest rate
Consolidated - 2009		Profit & Loss	Profit & Loss
Cash at bank	21,859	656	(656)
	21,859	656	(656)
Tax charge of 30%		(197)	197
Post tax profit increase / (decrease)		459	(459)

(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.

The Group's exposure to foreign currency risk is as follows:	**Consolidated**	
	2010 US$	**2009 US$**
Cash at bank	290	1,279
Loans and accruals	(744,401)	(548,448)
Net Exposure	(744,111)	(547,169)

The Group's most significant supplier, located in Australia, accounts for 76.4% of trade payables at 31 December 2010 .

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 2010**			**Consolidated 2009**		
	Carrying amount	+10% USD/AUD	-10% USD/AUD	Carrying amount	+10% USD/AUD	-10% USD/AUD
		Profit & Loss	Profit & Loss		Profit & Loss	Profit & Loss
	US$	AUD$	AUD$	US$	AUD$	AUD$
Cash at bank	447	134	(134)	1,279	2,590	(2,590)
Loans and accruals	(744,401)	(73,074)	73,074	(548,448)	40,250	(40,250)
	(743,954)	(72,940)	72,940	(547,169)	42,840	(42,840)
Tax charge of 30%		21,882	(21,882)		(12,852)	12,852
Post tax profit increase / (decrease)		(51,058)	51,058		29,988	(29,988)

(e) Accounting policies

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

28. SEGMENT INFORMATION

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The group is managed primarily on the basis of mineral exploration and associated technology development in Australia. Operating segments are therefore determined on the same basis.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

28. SEGMENT INFORMATION (CONTINUED)

Basis of accounting for purposes of reporting by operating segments (continued)

Inter-segment transactions

An internally determined transfer price is set for all inter-segment sales. This price is reset quarterly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives majority economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and

Unallocated items

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

impairment of assets and other non-recurring items of revenue or expense;
income tax expense; deferred tax assets and liabilities;
current tax liabilities; other financial liabilities; and intangible assets

Consolidated **Segment performance**	**Exploration Australia 2010 $**	**Total 2010 $**	**Exploration Australia 2009 $**	**Total 2009 $**
Revenue				
Interest revenue	-	-	3,805	3,805
Other income	30	30	-	-
Total revenue	30	30	3,805	3,805
Operating result				
Segment net loss before income tax benefit	(878,881)	(878,881)	(758,858)	(758,858)
Reconciliation of segment result to group net loss before tax				
Amounts not included in segment result but reviewed by board				
Corporate charges		(109,798)		(117,736)
Total net loss before income tax benefit		(988,679)		(876,594)
Segment assets and liabilities				
Segment assets	1,563,256	1,563,256	1,603,606	1,603,606
Unallocated assets		-		-
Group assets		1,563,256		1,603,606
Segment liabilities	2,922,933	2,922,933	2,049,451	2,049,451
Unallocated liabilities		-		-
Group liabilities		2,922,933		2,049,451

29. CONTINGENT LIABILITIES

(a) Success fees

	Consolidated 2010 $	**Consolidated 2009 $**
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.	2,215,002	1,957,816

29. CONTINGENT LIABILITIES 9CONTINUED0

(a) Success fees (continued)

	Consolidated 2010 Number	Consolidated 2009 Number
In addition, each person supplying Tier 3 Funding (by deferral of fees and making of loan) will be entitled to receive 5 year options with an exercise price of the greater of 50% of the issue price shares or 20 cents on the basis of 1 option for every 3.5 cents contributed to the funding prior to 1 January 2010. The options to be granted after completion of Tier 1 Funding.	36,160,352	11,370,280
From 1 January 2010 for every US$10,000 contributed to funding each person will receive 325,000 warrants to be issued on a date to be determined by the Board with a 5 year term at a discount of 50% of the price at which shares are issued to investors in a subsequent fundraising.	14,210,649	-

(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

	Consolidated 2010 $	Consolidated 2009 $
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 JSG - A Limited Partnership (vendor) and Mr Frank Ciotti (a director of the company). A controlled entity, RP International Pty Ltd (RPI), has entered into an agreement to transfer 21.4286% of the royalties payable under the assignment agreement. No amount is payable under the transfer agreement until such time as the company has completed its IPO. The amount payable in this event is US$2,000,000.	1,963,300	2,239,340

30. SUBSEQUENT EVENTS

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

31. ADDITIONAL COMPANY INFORMATION

Principal Registered Office and Principal Place of Business

Suite 202, Angela House
30 - 36 Bay Street
DOUBLE BAY NSW 2028

32. NOTES TO STATEMENTS OF CASH FLOWS

(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 2010 $	Consolidated 2009 $
Cash at bank and on hand	15,496	21,859
	15,496	21,859

(b) Reconciliation of total comprehensive income (loss) after income tax to net cash flows from operating activities

	Consolidated 2010 $	Consolidated 2009 $
Total comprehensive income (loss) after income tax	(939,955)	(703,174)
Non cash items included in profit and loss		
Employee entitlement expense	16,576	(5,196)
Depreciation and amortisation	42,055	42,949
Foreign exchange (gain)	(112,668)	(114,718)
Gain on disposal of property, plant and equipment	-	-
Interest charged on loans unpaid	193,728	133,315
Option expense	25,817	29,362
Unrealised foreign exchange (gain) loss	(310)	(208)
Changes in assets and liabilities		
(Increase) in other receivables	(60,336)	(30,664)
(Decrease) Increase in trade creditors, other creditors and accruals	445,545	207,041
Net cash used in operating activities	(389,548)	(441,293)