

SAFEWORLD AUSTRALIA LTD
A.C.N. 107 353 695

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2006

SAFEWORLD AUSTRALIA LTD
A.C.N. 107 353 695

DIRECTORS' REPORT

Your directors present the following report for the year ended 31 July 2006.

Directors

The names of each person who has held office during the year and since the end of the financial year:

Ray Soper

Mr Soper is a widely experienced business professional and company director. He has 20 years' experience as an executive director, non-executive director and chairman with a number of public companies in both Australia and North America. He is also active on a number of audit committees. He has a BSc (Mineral Technology) from Otago University, in New Zealand, and an MBA from the University of New South Wales. He is a member of the Australasian Institute of Mining and Metallurgy.

Russell Krause

Mr Krause is a consultant stockbroker advising on initial public offerings, capital raising, acquisitions and divestments, and restructuring. During his career Mr. Krause has held senior positions with the stockbroking firms of Ord Minnett, ANZ Macaughan, Bankers Trust Australia, and HP JDV Ltd. His stockbroking experience includes directorships and board positions, participation in and chairmanship of underwriting and risk committees, acting as divisional head of private client business, and senior investment banking positions with responsibility for institutional banking, corporate finance and research. He also has international experience overseeing the establishment and development of margin lending businesses.

Greg Buchanan – resigned on 4 August 2005

Mr Buchanan is an IT professional with extensive business management experience as well as over 30 years' computer systems knowledge. He has worked in the IT industry both as a technical specialist and in an executive management capacity and has held senior positions with both Apple Computer and Microsoft. His principal formal qualifications are a degree in electrical engineering from the New South Wales Institute of Technology, a graduate diploma in finance, and an MBA from Deakin University. He is a Fellow of the Australian Institute of Company Directors, a Member of the Australian Institute of Management, and a member of the Institute of Engineers Australia.

Alan Metcalfe – resigned on 10 August 2005

Mr Metcalfe is an experienced system designer, project manager, and business manager. His business experience spans multi-media publishing (newspapers, films, and audio), technology development, and general management. His achievements include positions of leadership including founder, director and general manager of two publicly listed companies in Australia – Queensland Science & Technology Ltd and SciRad Ltd. He has particular experience in system design, technology development (project-management and commercialisation strategy) and technology transfer and has worked extensively in the US and Russia as well as in Australia.

Jeremy Martineau - appointed on 24 March 2006

Mr Martineau has a background in law and, though no longer practicing, remains on the register in both the UK and Australia. Throughout his career he has specialized in company transactional work where he has experience in both project-management and advisory capacities. In Australia he has been involved in legal practice with McCullough Robertson in Brisbane and has also worked in the corporate finance & investment banking practice of PricewaterhouseCoopers where he was involved in initiating, structuring and managing a number of transactions (equity investments and company sales) to successful completion. He holds a diploma in entrepreneurship studies and is a member of the Australian Institute of Company Directors.

Review of Operations and Results of Operations

The net loss after tax of the consolidated entity for the year ended 31 July 2006 was \$1,616,368 (2005: \$2,693,145).

SAFEWORLD AUSTRALIA LTD
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DIRECTORS' REPORT

Significant Changes in the State of Affairs

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

Principal Activities

The principal activity of the consolidated entity during the year has been the funding of the development contribution payable under the master distribution agreement with IBS-(BVI) Ltd relating to the Safe Worlds technology.

Significant After Balance Date Events

There are no significant matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in future financial years except the following:

- Issue of shares at \$0.20 each and options at \$0.05 each to raise \$50,000 and \$495,350 respectively; and
- Payment to IBS-(BVI) Ltd of the balance of the development contribution payable under the master distribution agreement with IBS-(BVI) Ltd relating to the Safe Worlds technology to secure the rights under that agreement.

Likely Future Developments and Expected Results

The information required by section 299(1) (e) of the Corporation Act 2001 has been omitted from the report because the directors believe that it would result in unreasonable prejudice to the consolidated entity.

Performance in Relation to Environmental Regulation

There has been no matter either during or since the end of the financial year which in the opinion of the directors would give rise to any conflict with the provisions of existing environmental regulation.

Dividends

No dividends were paid or provided for during the financial year.

Directors' Meetings

<i>Name</i>	<i>Eligible to attend</i>	<i>Attended</i>
RJ Soper	12	12
RH Krause	12	11
AM Metcalfe	2	1
GJ Buchanan	1	1
JJ Martineau	3	3

Directors' Interests

<i>Name</i>	<i>Ordinary Shares</i>
RJ Soper	603,333
RH Krause	1,520,000
AM Metcalfe	3,550,000
GJ Buchanan	2,494,000
JJ Martineau	3,090,000
	11,257,333

SAFEWORLD AUSTRALIA LTD
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DIRECTORS' REPORT *Cont'd*

Options

As at 31 July 2006 the following options were on issue:

<i>Number of options</i>	<i>Vesting Date</i>	<i>Exercise Price</i>	<i>Expiry Date</i>	<i>Terms and Conditions</i>
150,000	1/10/05	\$0.20	30/09/08	Subject to the consultancy agreement with D&K Ventures Pty Ltd still being current on the 30th September immediately preceding
150,000	1/10/06	\$0.20	30/09/08	
200,000	1/10/07	\$0.20	30/09/08	

Indemnification

The company has not, during the financial year, in respect of any person who is or has been an officer or auditor of the company or a related body corporate, indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

Proceedings on Behalf of the Company

No proceedings have been entered into on behalf of the company.

Auditor's Independence Declaration

The auditor's independence declaration under section 307C of the Corporations Act 2001 forms part of this directors' report and is attached to this report.

Signed in accordance with a resolution of the board of directors:



Ray Soper
Director

Dated this 6th day of November 2006

SAFeworld AUSTRALIA LTD
A.C.N. 107 353 695

AUDITOR'S INDEPENDENCE DECLARATION

To: The Directors of SafeWorld Australia Ltd

As lead engagement partner for the audit of SafeWorld Australia Ltd for the year ended 31 July 2006, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

PKF

PKF
Chartered Accountants



J D Keating
Partner

Dated this 6th day of November 2006

**SAFEWORLD AUSTRALIA LTD
A.C.N. 107 353 695**

**DIRECTORS' DECLARATION
FOR THE YEAR ENDED 31 JULY 2006**

In the opinion of the directors of the company:

- (a) the accompanying financial statements and notes are in accordance with Corporations Act 2001, comply with Accounting Standards and give a true and fair view of the company's and consolidated entity's financial position as at 31 July 2006 and of their performance for the year ended on that date;
- (b) at the date of this declaration, there are reasonable grounds to believe that the company can meet its debts as and when they become due and payable.

Signed in accordance with the resolution of the board of directors

A handwritten signature in black ink, appearing to read 'R. Soper', with a stylized flourish at the end.

Ray Soper

Director

Dated this 6th day of November 2006

SAFEWORLD AUSTRALIA LTD
A.C.N. 107 353 695

INCOME STATEMENT

FOR THE YEAR ENDED 31 JULY 2006

	Notes	Consolidated 2006 \$	2005 \$	Parent Entity 2006 \$	2005 \$
Revenue	3	9,301	8,357	7,100	3,638
Expenses	4	(1,625,669)	(2,701,502)	(3,773)	(2,536,134)
Finance costs		-	-	-	-
Profit/(loss) before income tax expense		(1,616,368)	(2,693,145)	3,327	(2,532,496)
Income tax benefit/(expense)	5	-	-	-	-
Net profit/(loss)		(1,616,368)	(2,693,145)	3,327	(2,532,496)

The above Income Statement should be read in conjunction with the attached notes

SAFEWORLD AUSTRALIA LTD
A.C.N. 107 353 695

BALANCE SHEET

AS AT 31 JULY 2006

	Notes	Consolidated		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Current Assets					
Cash and cash equivalents		87,607	333,335	30,505	275,178
Trade and other receivables	6	17,538	11,547	1,280,000	-
Total Current Assets		<u>105,145</u>	<u>344,882</u>	<u>1,310,505</u>	<u>275,178</u>
Non-Current Assets					
Property, plant and equipment	7	20,132	24,041	-	-
Intangible assets	9	2,338,637	2,338,637	-	-
Other financial assets	8	-	-	2,500,000	2,500,000
Total Non-Current Assets		<u>2,358,769</u>	<u>2,362,678</u>	<u>2,500,000</u>	<u>2,500,000</u>
Total Assets		<u>2,463,914</u>	<u>2,707,560</u>	<u>3,810,505</u>	<u>2,775,178</u>
Current Liabilities					
Trade and other payables	10	483,753	1,343,031	50,000	1,250,000
Total Current Liabilities		<u>483,753</u>	<u>1,343,031</u>	<u>50,000</u>	<u>1,250,000</u>
Total Liabilities		<u>483,753</u>	<u>1,343,031</u>	<u>50,000</u>	<u>1,250,000</u>
NET ASSETS		<u>1,980,161</u>	<u>1,364,529</u>	<u>3,760,505</u>	<u>1,525,178</u>
Equity					
Share capital	11	6,304,419	4,072,419	6,304,419	4,072,419
Accumulated losses		<u>(4,324,258)</u>	<u>(2,707,890)</u>	<u>(2,543,914)</u>	<u>(2,547,241)</u>
TOTAL EQUITY		<u>1,980,161</u>	<u>1,364,529</u>	<u>3,760,505</u>	<u>1,525,178</u>

The above Balance Sheet should be read in conjunction with the attached notes

SAFEWORLD AUSTRALIA LTD
A.C.N. 107 353 695

STATEMENT OF CHANGES IN EQUITY

AS AT 31 JULY 2006

Consolidated

2006 consolidated	Share Capital	Retained Earnings	Total
	\$	\$	\$
Total at the beginning of the year	4,072,419	(2,707,890)	1,364,529
Shares issued during the period	2,232,000	-	2,232,000
Profit (loss) for period	-	(1,616,368)	(1,616,368)
Total equity at the end of the year	<u>6,304,419</u>	<u>(4,324,258)</u>	<u>1,980,161</u>

2005 consolidated	Share Capital	Retained Earnings	Total
	\$	\$	\$
Total at the beginning of the year	2,644,870	(14,745)	2,630,125
Shares issued during the period	1,427,549	-	1,427,549
Profit (loss) for period	-	(2,693,145)	(2,693,145)
Total equity at the end of the year	<u>4,072,419</u>	<u>(2,707,890)</u>	<u>1,364,529</u>

Parent

2006 parent	Share Capital	Retained Earnings	Total
	\$	\$	\$
Total at the beginning of the year	4,072,419	(2,547,241)	1,525,178
Shares issued during the period	2,232,000	-	2,232,000
Profit (loss) for period	-	3,327	3,327
Total equity at the end of the year	<u>6,304,419</u>	<u>(2,543,914)</u>	<u>3,760,505</u>

2005 parent	Share Capital	Retained Earnings	Total
	\$	\$	\$
Total at the beginning of the year	2,644,870	(14,745)	2,630,125
Shares issued during the period	1,427,549	-	1,427,549
Profit (loss) for period	-	(2,532,496)	(2,532,496)
Total equity at the end of the year	<u>4,072,419</u>	<u>(2,547,241)</u>	<u>1,525,178</u>

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

SAFEWORLD AUSTRALIA LTD
A.C.N. 107 353 695

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 JULY 2006

	Notes	Consolidated		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Cash Flows From Operating Activities					
Payments to suppliers and employees		(923,027)	(1,247,660)	(1,250,286)	(314,524)
Payments towards development contribution		(1,700,000)	(300,000)	-	-
Interest received		7,275	8,357	3,638	3,638
GST Recovered/ (Paid)		93,293	(11,547)	-	-
Net cash provided by operating activities	18(i)	(2,522,484)	(1,550,850)	(1,246,648)	(310,886)
Cash Flows From Investing Activities					
Payments for plant and equipment		(5,245)	(27,553)	-	-
Net cash provided by/(used in) investing activities		(5,245)	(27,553)	-	-
Cash Flows from Financing Activities					
Proceeds from share issue		2,232,000	1,486,730	2,231,975	1,486,630
Proceeds from application monies		50,000	250,000	50,000	250,000
Share issue expenses		-	(20,451)	-	(20,451)
Loans to subsidiaries		-	-	(1,280,000)	(1,134,860)
Net cash provided by/(used in) financing activities		2,282,000	1,716,279	1,001,975	581,319
Net increase/(decrease) in cash held		(245,729)	137,876	(244,673)	270,433
Cash at the beginning of the financial year		333,336	195,460	275,178	4,745
CASH AT THE END OF THE FINANCIAL YEAR	18(ii)	87,607	333,336	30,505	275,178

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

SAFEWORLD AUSTRALIA LTD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2006

1. INTRODUCTION

SafeWorld Australia Ltd is a public company limited by shares and is incorporated in Australia. The financial statements of SafeWorld Australia Ltd are for the period 1 August 2005 to 31 July 2006.

Operations and Principal Activities

The principal activity of the consolidated entity during the year has been the funding of the development contribution payable under the master distribution agreement with IBS-(BVI) Ltd relating to the Safe Worlds technology.

Currency

The financial report is presented in Australian dollars, and amounts are rounded to the nearest dollar.

Registered Office

The registered office of SafeWorld Australia Ltd is situated at suite 23, 36 Agnes Street, Brisbane, Queensland 4006.

Authorisation of Financial Report

The financial report was authorised for issue on 6 November 2006.

Ultimate Parent Entity

The ultimate parent entity is SafeWorld Australia Ltd.

First-time Adoption of International Financial Reporting Standards (AIFRS)

This is the first AIFRS financial report presented by SafeWorld Australia Ltd.

The effects upon the transition from previous Australian Accounting Standards to Australian equivalents to International Financial Reporting Standards on the reported financial position, financial performance and cash flows are disclosed in note 20.

2. SUMMARY OF ACCOUNTING POLICIES

The financial report is a general purpose financial report which has been drawn up in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

The financial statements have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets. The accounting policies have been consistently applied unless otherwise stated.

(a) Revenue Recognition

Interest Income

Interest revenue is recognised using the effective interest method. It includes the amortisation of any discount or premium.

(b) Receivables

Trade accounts receivable and other receivables represent the principal amounts due at balance date less any provision for doubtful accounts.

(c) Property, Plant and Equipment

All property, plant and equipment are stated at cost.

Plant and equipment is stated in the financial statements at cost. All plant and equipment are depreciated over their estimated useful lives using the straight line method starting from the time the assets are held ready for use. The average depreciation rates per class of asset are as follows:

Plant and equipment	10-20%
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SAFEWORLD AUSTRALIA LTD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2006

(d) Income Tax

Income taxes are accounted for using the comprehensive balance sheet liability method whereby:

- the tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- current and deferred tax is recognised as income or expense except to the extent that the tax relates to equity items or to a business combination;
- a deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset; and
- deferred tax assets and liabilities are measured at the tax rates that are expected to apply for the period when the asset is realised or the liability settled.

Tax-effect accounting principles are adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in the deferred tax assets and deferred tax liabilities, as applicable.

Tax Consolidation System

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 was substantially enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the company.

At the date of this report the directors have not assessed the financial effect, if any, the legislation may have on the company and, accordingly, have not made a decision whether or not to elect to be taxed as a single entity. The financial effect of the implementation of the tax consolidation system on the company has not been recognised in the financial statements.

(e) Leases

Operating lease expense is recognised as an expense on a straight line basis over the lease term.

(f) Employee Benefits

Wages and Salaries, and Annual Leave

Liabilities for wages and salaries and annual leave are recognised and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' service up to that date.

Long Service Leave

The provision is measured at the present value of the estimated future cashflows in respect to services provided up to balance date. Liabilities are determined after taking into consideration estimated future increases in wages and salaries and past experience regarding staff departures. Related on-costs are included.

SAFEWORLD AUSTRALIA LTD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2006

(g) Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognised on the balance sheet when the entity becomes party to the contractual provisions of the financial instrument.

A financial asset is de-recognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the entity.

A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets not measured at fair value comprise loans and receivables being non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest method.

The amortised cost of a financial asset or a financial liability is the amount initially recognised minus principal repayments, plus or minus cumulative amortisation of any difference between the initial amount and maturity amount and minus any write-down for impairment or uncollectibility.

(h) Impairment

An impairment loss will be recognised whenever the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. Impairment losses will be recognised in the income statement unless they relate to a revalued asset, where the impairment loss will be treated in the same way as a revaluation decrease.

(i) Payables

Accounts payable represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest.

(j) Intangibles

Costs associated with the initial acquisition of the Safe Worlds technology distribution rights are capitalised as intangible assets. The directors review the carrying value of intangibles to ensure the carrying value does not exceed their recoverable amount and, when impairment in value has arisen, the intangible asset is written down.

(k) Principles of Consolidation

Subsidiaries are entities controlled by the parent company. Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the financial report from the date that control starts until the date that control ceases.

SAFEWORLD AUSTRALIA LTD

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2006**

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
3. REVENUE				
Non-Operating Revenue:				
Interest	7,275	8,357	7,100	3,638
Other	2,026	-	-	-
Total Revenue	<u>9,301</u>	<u>8,357</u>	<u>7,100</u>	<u>3,638</u>

4. EXPENSES

Classification of expenses by nature:

Marketing and prospectus costs	-	36,178	-	-
Write-down inter-company loan receivable	-	-	-	1,134,860
Depreciation	9,154	4,176	-	-
Consultancy fees	462,912	970,766	-	-
Payments towards development contribution*	900,000	1,300,000	-	1,300,000
Employee costs	160,092	162,978	-	100,000
Administration costs	69,101	193,736	3,773	1,274
Operating lease - premises	24,410	33,668	-	-
Total Expenses	<u>1,625,669</u>	<u>2,701,502</u>	<u>3,773</u>	<u>2,536,134</u>

* Total cash expended during the period for development contributions was \$1,700,000 (2005: \$300,000). An additional \$200,000 (2005: \$1,000,000) of development expenses is included in note 10 under accrued expenses. This amount (representing the balance of the development contribution payable under the master distribution agreement with IBS-(BVI) Ltd relating to the Safe Worlds technology) has, since the year end, been paid to IBS-(BVI) Ltd as referred to in note 19.

5. INCOME TAX

Explanation of the relationship between tax expense and accounting profit:

Prima facie tax expense/(benefit) on profit before tax (calculated at 30%)	(484,910)	(807,943)	998	(759,749)
Non-deductible expenses	220	2,987	-	-
Other	-	-	(998)	-
Deferred tax assets not brought to account	484,690	804,956	-	759,749
Income tax expense/(benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Deferred tax assets have not been brought to account because the directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable. The total deferred tax asset not brought to account is \$1,294,070 (2005: \$809,380).

6. TRADE AND OTHER RECEIVABLES

Non-trade receivables	<u>17,538</u>	<u>11,547</u>	<u>1,280,000</u>	<u>-</u>
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SAFeworld AUSTRALIA LTD

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2006**

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
7. PROPERTY, PLANT AND EQUIPMENT				
Plant & equipment at cost	33,462	28,217	-	-
Accumulated depreciation	(13,330)	(4,176)	-	-
	<u>20,132</u>	<u>24,041</u>	<u>-</u>	<u>-</u>
Movements in plant and equipment				
Balance at the beginning of the year	24,041	664	-	-
Additions	5,245	27,553	-	-
Disposals	-	-	-	-
Depreciation expense	(9,154)	(4,176)	-	-
Balance at the end of year	<u>20,132</u>	<u>24,041</u>	<u>-</u>	<u>-</u>
8. OTHER FINANCIAL ASSETS				
Investments in controlled entities at cost	<u>-</u>	<u>-</u>	<u>2,500,000</u>	<u>2,500,000</u>
9. INTANGIBLES				
Master distribution rights at cost	<u>2,338,637</u>	<u>2,338,637</u>	<u>-</u>	<u>-</u>

Master distribution rights at cost represent distribution rights for the Safe Worlds technology in Australia & New Zealand under the master distribution agreement with IBS (BVI) Ltd. The carrying value of the relevant rights in the statement of financial performance has been determined by the acquisition transaction under which SafeWorld Australia Ltd acquired the whole of the whole of the issued share capital of SafeWorld Australia & New Zealand Pty Ltd on 31 July 2004.

Further sums (not included in the amount shown) have been paid to IBS-(BVI) Ltd for the development of the Safe Worlds technology since 31 July 2004. This has been the case both during the period under review (the year ended 31 July 2006) as well as during the prior year. All such sums have been fully expensed without being capitalised in the statement of financial position. The directors have chosen to take a prudent view and not reflect these further sums in the statement of financial position (therefore leaving the original cost figure without any increase) on the basis that development is still continuing. The recoverable amount is dependent upon the successful commercialisation of the Safe Worlds technology and is therefore subject to material uncertainty.

10. TRADE AND OTHER PAYABLES

Trade accounts payable and accruals	433,753	1,093,031	-	1,000,000
Share application monies	50,000	250,000	50,000	250,000
	<u>483,753</u>	<u>1,343,031</u>	<u>50,000</u>	<u>1,250,000</u>

Included above are amounts payable by the consolidated entity to director-related entities totalling \$166,140 (2005: \$45,883).

SAFEWORLD AUSTRALIA LTD

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2006**

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
11. SHARE CAPITAL				
Ordinary Shares				
Issued and paid up capital	6,304,419	4,072,419	6,304,419	4,072,419
Movement in parent entity shares on issue				
	2006		2005	
	No. of Shares	\$	No. of Shares	\$
Beginning of the financial year	22,301,222	4,072,419	14,804,000	2,644,870
2,572,222 shares issued at \$0.18 a share	-	-	2,572,222	463,000
500,000 shares issued to CEO at \$nil per share*	-	-	500,000	100,000
4,425,000 shares issued at \$0.20 a share	-	-	4,425,000	885,000
11,159,875 shares issued at \$0.20 a share	11,409,875	2,232,000	-	-
Less share issue costs	-	-	-	(20,451)
End of financial year	33,711,097	6,304,419	22,301,222	4,072,419

* Refer to notes 13 and 20 for details.

Ordinary shares have equal rights to vote, participate in dividends and share in the distribution of surplus assets in the event of the entity winding up.

Options over parent entity ordinary shares

As at 31 July 2006 the following options were on issue:

<i>Number of options</i>	<i>Vesting Date</i>	<i>Exercise Price</i>	<i>Expiry Date</i>	<i>Terms and Conditions</i>
150,000	1/10/05	\$0.20	30/09/08	Subject to the consultancy agreement with D&K Ventures Pty Ltd still being current on the 30th September immediately preceeding
150,000	1/10/06	\$0.20	30/09/08	
200,000	1/10/07	\$0.20	30/09/08	

12. AUDITOR'S REMUNERATION

Audit of financial reports	3,500	3,000	-	-
Other services; preparation of financial reports	1,500	1,000	-	-
	5,000	4,000	-	-

13. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel comprise directors and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

Short-term employee benefits	-	-	-	-
Long-term employee benefits	-	-	-	-
Share based payments	-	100,000	-	100,000
Post-employment benefits	-	-	-	-
	-	100,000	-	100,000

14. SEGMENT REPORTING

The consolidated entity operates in one business segment, being e-commerce, (with its activities directed towards the funding of its development contribution payable under the master distribution agreement with IBS-(BVI) Ltd in respect of the Safe Worlds technology) and predominantly in one geographical segment, being Australia and New Zealand.

SAFEWORLD AUSTRALIA LTD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2006

15. RELATED PARTY TRANSACTIONS

Names of Directors holding office at any time during the year were:

2006

RJ Soper
RH Krause
A Metcalfe (resigned on 10 August 2005)
G Buchanan (resigned on 4 August 2005)
JJ Martineau (appointed on 24 March 2006)

2005

A Phillips (resigned 19 August 2004)
D Barwick (resigned 19 August 2004)
J Hammond (resigned on 20 December 2004)
R Krause
G Buchanan (appointed 13 December 2004)
R Soper (appointed on 19 January 2005)
W Tapp (resigned on 19 August 2004)
A Metcalfe

i) Director's Remuneration

No fees were paid during the year to directors or entities associated with the directors for their services as directors.

ii) Wholly-Owned Controlled Group

All transactions between companies in the wholly owned controlled group have been eliminated in the financial statements of the consolidated entity.

iii) Director Related Entities

During the period the consolidated entity paid G Buchanan consulting fees totalling \$nil (2005: \$45,883).

The consolidated entity was invoiced by Ipseity Pty Ltd, a company associated with RJ Soper, for consulting fees totalling \$37,500 in respect of the period (2005: \$45,883).

The consolidated entity was invoiced by RH Krause, for consulting fees totalling \$146,000 in respect of the period (2005: \$nil).

The consolidated entity was invoiced by Calthorpe Corporate Consulting Pty Ltd, a company associated with JJ Martineau, for consulting fees totalling \$66,800 in respect of the period.

(iv) Aggregate shares and options held by directors or their related entities	2006	2005
Ordinary shares	11,257,333	9,527,333
Options	-	-

Included in the above figures are all shares and all options held at the end of the year by persons (including their related entities) serving as directors at any time during the year.

16. CONTROLLED ENTITIES

Controlled entities	Country of Incorporation	Percentage of Shares held	
		2006	2005
SafeWorld Australia & New Zealand Pty Ltd	Australia	100%	100%

SAFEWORLD AUSTRALIA LTD

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2006**

17. FINANCIAL INSTRUMENTS

The consolidated entity manages its exposure to interest rate fluctuations through a formal set of policies and procedures approved by the board. The consolidated entity does not engage in any significant transactions which are speculative in nature.

Exposures of the consolidated entity to interest rate risk on financial assets and liabilities are summarised as follows:

2006	Non-interest bearing \$	Fixed Interest Rate 1 year or less \$	Maturing 1 to 5 Years \$	Floating interest rate \$	Total \$	Weighted average effective interest rate
Financial Assets:						
Cash	-	-	-	87,607	87,607	1.20
Receivables	17,538	-	-	-	17,538	-
	<u>17,538</u>	<u>-</u>	<u>-</u>	<u>87,607</u>	<u>105,145</u>	
Financial Liabilities:						
Payables	483,753	-	-	-	483,753	-
	<u>483,753</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>483,753</u>	
Net financial assets/(liabilities)	<u>(466,215)</u>	<u>-</u>	<u>-</u>	<u>87,607</u>	<u>(378,608)</u>	

2005	Non-interest bearing \$	Fixed Interest Rate 1 year or less \$	Maturing 1 to 5 Years \$	Floating interest rate \$	Total \$	Weighted average effective interest rate
Financial Assets:						
Cash	-	-	-	333,335	333,335	3.35%
Receivables	11,547	-	-	-	11,547	-
	<u>11,547</u>	<u>-</u>	<u>-</u>	<u>333,335</u>	<u>344,882</u>	
Financial Liabilities:						
Payables	1,093,031	-	-	-	1,093,031	-%
	<u>1,093,031</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,093,031</u>	
Net financial assets/(liabilities)	<u>(1,081,484)</u>	<u>-</u>	<u>-</u>	<u>333,335</u>	<u>(748,149)</u>	

Credit Risk Exposure

The consolidated entity's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets indicated in the Balance Sheet. The consolidated entity had no significant concentrations of credit risk with any single counterparty or group of counterparties.

SAFEWORLD AUSTRALIA LTD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2006

18. NOTES TO STATEMENTS OF CASH FLOWS

(i) Reconciliation of Net Cash Provided by Operating Activities to Profit After Income Tax

Profit/(loss)after income tax	(1,616,368)	(2,693,145)	3,327	(2,532,496)
Depreciation and amortisation	9,154	4,176	-	-
Impairment of inter-company loan	-	-	-	1,134,860

Changes in assets and liabilities

Trade accounts payable and other liabilities	(912,242)	1,149,466	(1,249,975)	1,086,750
GST Clearing	(3,028)	(11,347)	-	-
	<u>(2,522,484)</u>	<u>(1,550,850)</u>	<u>(1,246,648)</u>	<u>(310,886)</u>

(ii) For the purposes of the Statements 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 year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash	87,607	333,335	30,505	275,178

19. EVENTS SUBSEQUENT TO BALANCE DATE

There are no significant matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in future financial years except for the following:

- Issue of shares at \$0.20 each and options at \$0.05 each to raise \$50,000 and \$495,350 respectively; and
- Payment to IBS-(BVI) Ltd of the balance of the development contribution payable under the master distribution agreement with IBS-(BVI) Ltd relating to the Safe Worlds technology to secure the rights under that agreement.

Options granted (as referred to above) include options held by directors or director-related entities in respect of fees accrued due at the balance date but remaining then unpaid.

20. IMPACT OF ADOPTING AIFRS

Details of adjustments

AASB 2 requires that share based payments be recognised as an expense over the grant period of the equity instrument. During the 2005 financial year the entity issued 500,000 \$0.20 shares to the CEO for services. No monetary consideration was paid to the entity. The effect of adopting AASB 2 results in the loss for the 2005 financial year increasing by \$100,000 and the share capital increasing by \$100,000.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SAFEWORLD AUSTRALIA LTD

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Safeworld Australia Ltd (the company) and the consolidated entity, for the year ended 31 July 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Qualification

Included in Intangible Assets (Note 9) is distribution rights for the Safe Worlds technology in Australia & New Zealand with a carrying value of \$2,338,637 acquired resulting from the acquisition of 100% of the issued capital of SafeWorld Australia & New Zealand Pty Ltd on 31 July 2004. The terms of the acquisition, and therefore the distribution rights for the Safe Worlds technology in Australia & New Zealand held by SafeWorld Australia & New Zealand Pty Ltd, reflect the value placed upon them as assessed by the directors. Their assessment was made in light of an independent technical assessment carried out by Mr David Tuffley of Tuffley Consulting Services Pty Ltd.

Included in the parent entity in Trade and Other Receivables (note 11) are amounts loaned to the controlled entity, SafeWorld Australia & New Zealand Pty Ltd, totaling \$1,280,000. The recoverability of this amount is dependent on the ability of SafeWorld Australia Ltd to generate sufficient funds from the distribution rights for the Safe Worlds technology in Australia & New Zealand.

Australian Accounting Standard AASB 136 'Impairment of Assets' requires an asset to be written down to its recoverable amount when its carrying value is greater than its recoverable amount. We have been unable to obtain sufficient appropriate audit evidence of the recoverable amount of the loan and intangible assets set out above and, accordingly, we have been unable to determine whether the recoverable amounts of the loan and intangible asset are at least equal to their carrying values.

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF
SAFEWORLD AUSTRALIA LTD**

Qualified Audit opinion

In our opinion, except for the effect, if any of the matter referred to in the qualification paragraph, the financial report of SafeWorld Australia Ltd is in accordance with:

- (a) The Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 July 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

PKF

PKF
Chartered Accountants



J D Keating
Partner

Dated at Brisbane this 6th day of November 2006