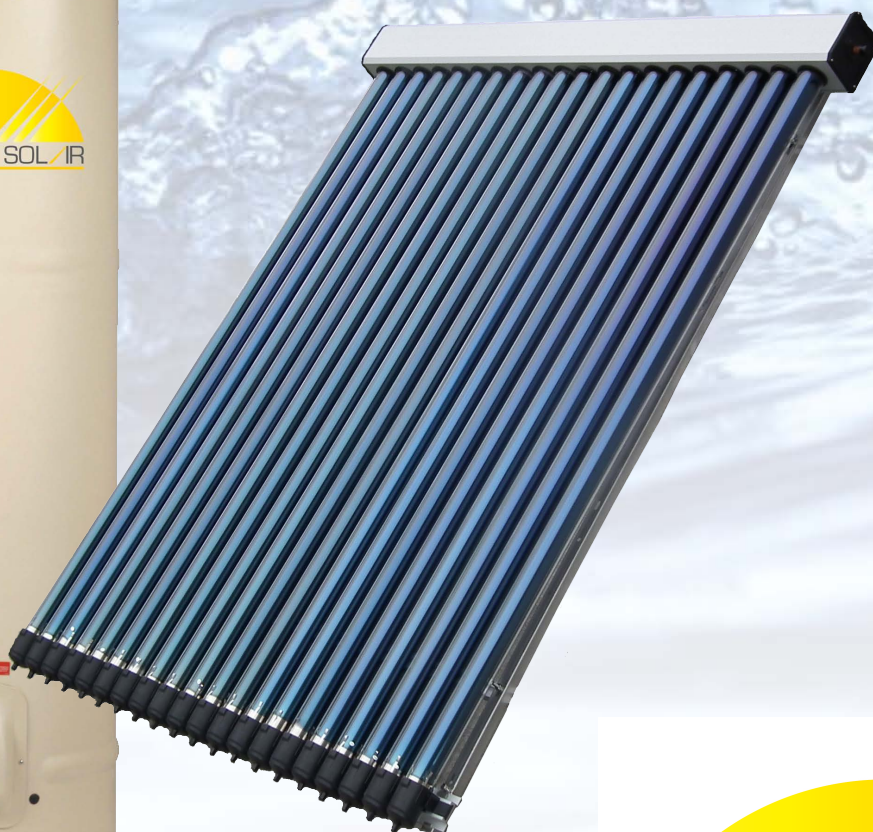


# **ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES**

**ABN: 51 122 708 061**

**Financial Report For The Year Ended  
30 June 2012**



# **ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES**

**ABN: 51 122 708 061**

## **Financial Report For The Year Ended 30 June 2012**

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**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**DIRECTORS' REPORT**

Your directors present their report, together with the financial statements of the Company for the financial year ended 30 June 2012.

**Principal Activities and Significant Changes in The Nature of Activities**

The Endless Solar Group designs and distributes energy saving products and services. It specialises in providing high quality, cost effective solar water heating products using Evacuated Tube Technology for the needs of both residential and commercial customers. Also, Endless Solar will continue its Research and Development innovation activities for solar renewable energy technology.

**Operating Results and Review of Operations for the year**

**Operating Results**

The Directors of Endless are pleased to report to shareholders that there has been very significant overall progress in the year under review. This progress includes the following:

1. The completion of the "CoolSolar" project in December 2011.
2. The lodgement this year of a number of provisional patents regarding the above project.
3. Setting up plans for the commercialisation of the "CoolSolar" project.
4. Two successful pro rata capital issues completed during the financial year.
5. The restructure of our Sydney operations to new premises at Auburn NSW.
6. Completion of new supply chain arrangements.
7. Initial evaluation of technology associated with "CoolSolar" that is applicable to a number of different industries.
8. Applications for further Government Grants to assist funding for research & development.
9. Developing cold storage technology
10. Commencing discussions with large corporations regarding the introduction and supply of the above new technologies.

The consolidated loss of the economic entity amounted to a losses of \$223,686 after income tax benefit of \$19,153 (For 2011: profit \$356, 016 after income tax benefit of \$79,845). The dollar cost of Research and Development that was undertaken in 2012 is \$361,672 (In 2011 was: \$363,716; and in 2010 was: 121,320). The total book value of Intangible Assets as at 30/06/2012 is \$846,708.

The cost of Provisional Patents lodged in 2012 is \$41,090. (In 2011: no lodgement).

Although the accounting results provide a consolidated loss for the 2012 year, we believe that the procedures now in place will enable the company to return to profitability during the current financial year.

**Review of Operations**

The Group has completed its "CoolSolar" project in conjunction with the Australian National University and funded under the Australian Federal Government's "Climate Ready Program" during the 2012 financial year. The Group has moved into the commercialisation phase of the Project and is identifying funding options which are available to assist the company in completing this phase of the "CoolSolar" development. The recognition of the costs of "CoolSolar" project and its related intellectual properties are provided in Note 13 Intangible Assets on page 19.

**Financial Position**

The net assets of the entity have increased by \$703,889 from 30 June 2011 to \$2,038,318 at 30 June 2012. This increase has largely resulted from the following factors:

- effect of the capitalised value of the "CoolSolar" Project (Climate Ready Project), and
- proceeds from two Rights Issues raising a total of \$927,575.

The Group has maintained its policy of having no external debt.

**Significant Changes in State of Affairs**

There were no other significant changes in the State of Affairs of the parent entity or controlled entities during the financial year ended 30 June 2012.

**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**DIRECTORS' REPORT**

**Dividends Paid or Recommended**

There were no Dividends paid or declared for payment during the financial year.

**Events after the Reporting Period**

Since the reporting period, research regarding the relevant patent landscape is indicating that the "CoolSolar" technology could be a world first invention.

**Environmental Issues**

The consolidated Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

There is presently uncertainty in relation to the possible impact of the carbon tax.

**Information on Directors**

Mr David H.A Craig	—	Chairman
Mr Stephen Standish	—	Director (resigned 26 July 2011)
Mr Chris Baring-Gould	—	Non-Executive Director
Mr Kevin Thomas	—	Director (appointed 26 July 2011)

**Company Secretary**

Mr Kevin Thomas is the company secretary.

**Meetings of Directors**

During the financial year, 6 meetings of directors were held.

Attendances by each director during the year were as follows:

	Directors' Meetings	
	Number eligible to attend	Number attended
Mr David H.A Craig	6	6
Mr Stephen Standish	-	-
Mr Chris Baring-Gould	6	6
Mr Kevin Thomas	6	6

**Indemnifying Officers**

Indemnities have been given and insurance premiums have been paid, during or since the end of the financial year, for any person who is or has been an officer of the consolidated group.

**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**DIRECTORS' REPORT**

**Options**

At the date of this report, the ordinary (limited voting) shares of Endless Solar Corporation Limited under option are as follows:

Grant Date	Date of expiry	Exercise Price	Total Options Grants	Options Released	Less Options Exercised	Options available for release	Options available for exercise as at 30/6/2012
02/09/2008	31/08/2014	\$0.12	4,075,000	1,268,750	(370,000)	2,806,250	898,750
02/09/2008	31/08/2014	\$0.20	1,095,000	271,250	0	823,750	271,250
02/09/2008	31/08/2014	\$0.30	830,000	351,250	(5,000)	478,750	346,250
<b>Total</b>			<b>6,000,000</b>	<b>1,891,250</b>	<b>(375,000)</b>	<b>4,108,750</b>	<b>1,516,250</b>

Options attached to the March 2012 Rights Issue are available for exercise at any time.

Grant Date	Date of expiry	Exercise Price	Total Options Granted
04/03/2012	31/03/2017	\$0.10	10,375,613
<b>Total</b>			<b>10,375,613</b>

Option holders do not have any rights to participate in any issue of shares. No further shares have been issued since year end, All shares are fully paid.

**Proceedings on Behalf of Company**

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

**Non-audit Services**

The Board of Directors, are satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

**Auditor's Independence Declaration**

The lead auditor's independence declaration for the year ended 30 June 2012 has been received and can be found on page 4 of the Financial Report.



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**Mr David H.A Craig**

Dated: 19/10/2012



**JOHN WHELLER, F.C.A.**  
CHARTERED ACCOUNTANT

**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES  
ABN: 51 122 708 061**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

  
John Wheller  
Registered Company Auditor

Dated this day      19th      of      OCTOBER      2012

**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012**

		2012	2011
	<b>Note</b>	\$	\$
Sales Revenue	2	642,523	1,503,496
Cost of Sales		<u>(472,226)</u>	<u>(942,271)</u>
Gross Profit		170,297	561,225
Other income		138,283	294,556
Administration expenses		(533,613)	(548,054)
Depreciation Expense		(10,096)	(16,073)
Finance costs	3	(5,796)	(699)
Other expenses		(1,914)	-
Net losses on financial assets - held for trading		-	(14,784)
<b>Net (Loss) / Profit before income tax</b>		<u>(242,840)</u>	<u>276,171</u>
Income tax benefit	4	19,153	79,845
<b>Net (Loss) / Profit for the year</b>		<u><u>(223,686)</u></u>	<u><u>356,016</u></u>
<b>Other comprehensive income:</b>			
<b>Other comprehensive income for the year, net of tax</b>		-	-
<b>Total comprehensive income for the year</b>		<u><u>(223,686)</u></u>	<u><u>356,016</u></u>

The accompanying notes form part of these financial statements.

**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012**

	Note	2012 \$	2011 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	344,722	349,395
Trade and other receivables	9	65,256	46,193
Inventories	10	143,370	125,751
Other assets	14	44,294	18,418
<b>TOTAL CURRENT ASSETS</b>		<u>597,641</u>	<u>539,757</u>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	9	69,345	40,143
Other financial assets	11	389,560	370,891
Property, plant and equipment	12	34,715	32,920
Deferred tax assets	17	107,279	85,388
Intangible assets	13	1,009,646	606,883
<b>TOTAL NON-CURRENT ASSETS</b>		<u>1,610,544</u>	<u>1,136,225</u>
<b>TOTAL ASSETS</b>		<u><u>2,208,186</u></u>	<u><u>1,675,982</u></u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	106,183	230,605
Borrowings	16	13,212	-
Current tax liabilities	17	5,770	60,150
Provisions	18	44,701	50,798
<b>TOTAL CURRENT LIABILITIES</b>		<u>169,867</u>	<u>341,553</u>
<b>NON-CURRENT LIABILITIES</b>			
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>		<u>169,867</u>	<u>341,553</u>
<b>NET ASSETS</b>		<u><u>2,038,318</u></u>	<u><u>1,334,429</u></u>
<b>EQUITY</b>			
Issued capital	19	1,504,274	576,700
Reserves		265,812	265,812
Retained earnings		268,232	491,917
<b>TOTAL EQUITY</b>		<u><u>2,038,318</u></u>	<u><u>1,334,429</u></u>

The accompanying notes form part of these financial statements.



**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012**

	Ordinary Shares	Retained Earnings	Capital Development Reserve*	Total
	\$	\$	\$	\$
<b>Balance at 1 July 2010</b>	576,700	401,713		978,413
<b>Comprehensive income</b>				
Profit for the year	-	356,016	-	356,016
<b>Total comprehensive income for the year</b>	-	356,016	-	356,016
Transfers from retained earnings to capital development reserve		(265,812)	265,812	-
<b>Balance at 30 June 2011</b>	576,700	491,917	265,812	1,334,429
<b>Balance at 1 July 2011</b>	576,700	491,917	265,812	1,334,429
<b>Comprehensive income</b>				
Loss for the year	-	(223,686)	-	(223,686)
Other comprehensive income for the year				-
<b>Total comprehensive income for the year</b>	-	(223,686)	-	(223,686)
<b>Transactions with owners, in their capacity as owners and other transfer</b>				
Shares issued during the year	927,575	-	-	927,575
<b>Total transactions with owners and other</b>	927,575	-	-	927,575
<b>Balance at 30 June 2012</b>	1,504,275	268,231	265,812	2,038,318

\* The purpose of the capital development reserve is for research and development work in the climate ready project in association with the Australian National University in Canberra.

The accompanying notes form part of these financial statements.

**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012**

	Note	2012 \$	2011 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		728,068	1,764,764
Payments to suppliers and employees		(1,214,798)	(1,461,611)
Interest received		12,678	9,201
Receipts from government grants		54,021	-
Finance costs		(4,490)	-
Taxes paid		(58,424)	(59,546)
Net cash provided by/(used in) operating activities	23	<u>(482,945)</u>	<u>252,808</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investments		-	81,237
Purchase of property, plant and equipment		(11,891)	(6,419)
Purchase of other non-current assets		-	(363,715)
Loan to related parties			
- payments made		-	(31,142)
Payment of rental bond		(29,750)	-
Purchase of investment in listed companies		(18,667)	-
Payment of Research & Development activities		(361,668)	-
Purchase of patents		(41,090)	-
Net cash provided by/(used in) investing activities		<u>(463,066)</u>	<u>(320,039)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		940,787	-
Proceeds from Endless Solar Pty Ltd		550	-
Net cash provided by/(used in) financing activities		<u>941,337</u>	<u>-</u>
Net increase/(decrease) in cash held		(4,674)	(67,231)
Cash and cash equivalents at beginning of financial year	8	349,395	416,627
Cash and cash equivalents at end of financial year	8	<u><u>344,722</u></u>	<u><u>349,395</u></u>

The accompanying notes form part of these financial statements.

**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

This financial report includes the financial statements and notes of Endless Solar Corporation Limited & Controlled Entities.

**Note 1            Summary of Significant Accounting Policies**

**Basis of Preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The Company is a for-profit entity for financial reporting purposes under the Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

**(a) Business Combinations**

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

**Goodwill**

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
- (ii) any non-controlling interest; and
- (iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognized in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Company holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Company can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). In such circumstances, the Company determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interests is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the financial statements.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Company's cash generating units or groups of cash generating units, representing the lowest level at which goodwill is monitored not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

**(b) Income Tax**

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

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

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

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

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

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

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

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

Tax Consolidation: Endless Solar Corporation Limited and its wholly-owned Australian subsidiary have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

**(c) Inventories**

Inventories are measured at the lower of cost and net realisable value. The periodic inventory method is used, in which the ending inventory is determined by a physical count of every item, and its cost of goods sold is subtracted from the sum of purchases and the beginning inventory of the accounting period.

**(d) Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

**Plant and equipment**

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(g) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the company includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in the statement of comprehensive income during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Furniture & Fittings	10%
Computer Software	25%
Plant and equipment	10%
Motor Vehicle	10%-25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

**(e) Leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**(f) Financial Instruments**

**Recognition and Initial Measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

**Classification and Subsequent Measurement**

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

The Company does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

**(i) Financial assets at fair value through profit or loss**

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

**(iii) Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

**(iv) Available-for-sale investments**

Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are expected to be sold after 12 months from the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

**(v) Financial Liabilities**

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

**Preferred Shares**

Preferred share capital is classified as equity if it is non-redeemable or redeemable only at the discretion of the parent company, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon declaration by the directors.

Preferred share capital is classified as a liability if it is redeemable on a set date or at the option of the shareholders, or where the dividends are mandatory. Dividends thereon are recognised as interest expense in the statement of comprehensive income.

**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**(g) Impairment of Assets**

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

**(h) Intangibles Other than Goodwill**

**Patents and trademarks**

Patents and trademarks are recognised at cost of acquisition. They have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life.

**Research and development**

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably.

Capitalised development costs have a finite useful life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project.

**(i) Foreign Currency Transactions and Balances**

**Functional and presentation currency**

The functional currency of the Company is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Australian dollars, which is the Company's functional currency.

**Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income, otherwise the exchange difference is recognised in the profit or loss.

**(j) Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

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**Options Scheme**

The Group operates an option scheme for eligible employees, directors, consultants and other participants approved by the ESC Board of Directors. The number of options expected to vest is to be reviewed and adjusted at each reporting date so that the amount recognised for services received as consideration for the options granted will be based on the number of options that eventually vest. The entitlement to Options is determined by the Board and options vest over a period ending at 31 August 2014 at the discretion of the Board. Options may be conditional on service conditions and performance hurdles. A total of 6,000,000 options have been granted, subject to meeting these hurdles.

ESC Limited is an unlisted company. As such, it would be highly subjective to value the options fairly, in particular, given the absence of data relating to a listed share price, and historical and implied option volatilities. Having regard to these factors, the Directors have determined that the cost of options expensed would not be material, and therefore not recognised in the Statement of Comprehensive Income for the current year; nor has an offsetting Reserve been established in the Balance Sheet of the same amount. The relevant expense will be included in future financial periods as these variables become capable of more accurate determination.

**(k) Provisions**

Provisions are recognised when the entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

**(l) Provision for Warranties**

Provision is made in respect of the Company's best estimate of the liability on all products and services under warranty at the end of the reporting period. The provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the entity's history of warranty claims.

**(m) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

**(n) Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest method.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

All revenue is stated net of the amount of goods and services tax (GST).

**(o) Trade and Other Receivables**

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(g) for further discussion on the determination of impairment losses.

**(p) Trade and Other Payables**

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

**(q) Borrowing Costs**

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**(r) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

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

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

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**(s) Government Grants**

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

**(t) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. Where the Company has retrospectively applied an accounting policy, made a retrospective restatement of items in the financial statements or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

**(aa) Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

**Key Estimates**

*(i) Impairment - General*

The Company assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

**(ab) New Accounting Standards for Application in Future Periods**

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Company. The Company has decided not to early adopt any of the new and amended pronouncements. The Company's assessment of the new and amended pronouncements that are relevant to the Company but applicable in future reporting periods is set out below:

- *AASB 9: Financial Instruments (December 2010) and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013).*

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key 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;
- requiring financial assets to be reclassified 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; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The Company has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

- *AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).*

This Standard makes amendments to AASB 112: Income Taxes and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments are not expected to significantly impact the Company.

- *AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).*

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees.

The Company has not yet been able to reasonably estimate the impact of this Standard on its financial statements.



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- AASB 2011–9: *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is therefore not expected to significantly impact the Company.

- AASB 119: *Employee Benefits* (September 2011) and AASB 2011–10: *Amendments to Australian Accounting Standards arising from AASB 119* (September 2011) [AASB 1, AASB 8, AASB101, AASB124, AASB134, AASB1049 & AASB 2011–8 and Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Company does not have any defined benefit plans and so is not impacted by the amendment.

AASB 119 (September 2011) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

- (i) for an offer that may be withdrawn – when the employee accepts;
- (ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
- (iii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Company has not yet been able to reasonably estimate the impact of these changes to AASB 119.

**Note 2 Revenue and Other Income**

	2012 \$	2011 \$
<b>Revenue from continuing operations</b>		
Sales revenue		
— Sale of goods	583,604	1,237,685
— Grants for Research & Development	58,919	265,812
Total sales revenue	<u>642,523</u>	<u>1,503,496</u>
Other revenue		
— interest received	12,681	9,201
— rental revenue	14,628	-
— royalties	110,974	285,355
Total other revenue	<u>138,283</u>	<u>294,556</u>
Total sales revenue and other revenue	<u>780,805</u>	<u>1,798,052</u>

**Note 3 Profit for the Year**

	2012 \$	2011 \$
Expenses		
Cost of sales	472,226	942,271
Interest expense on financial liabilities not at fair value through profit or loss:		
— Insurance funding	5,796	699
Total interest expense	<u>5,796</u>	<u>699</u>
Foreign currency translation losses	1,914	-
Bad and doubtful debts:		
— trade receivables	2,649	-
Total bad and doubtful debts	<u>2,649</u>	<u>-</u>
Employee benefits expense:		
— contributions to defined contribution superannuation funds	28,042	41,230
Rental expense on operating leases		
— minimum lease payments	59,859	61,696

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**Note 4      Income Tax Expense**

	2012 \$	2011 \$
(a) The components of tax expense comprise:		
Current tax	(72,852)	(53,092)
Deferred tax	-	(40,881)
Under (over) provision in respect of prior years	53,699	14,128
	<u>(19,153)</u>	<u>(79,845)</u>
(b) Prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at [30]% (2011: [30]%)	(72,852)	82,851
	<u>(72,852)</u>	<u>82,851</u>
Add:		
Tax effect of:		
— under provision for income tax in prior year	-	21,500
— Entertainment	-	451
	<u>(72,852)</u>	<u>104,802</u>
Less:		
Tax effect of:		
— Research and development concessions	-	(136,394)
— Under / (Over) provision for income tax - Research	(53,699)	(7,372)
— Deferred tax asset timing differences not recouped	-	(1,475)
— Deferred income tax timing differences previously recognised not to be incurred	-	(39,407)
Income tax attributable to entity	<u>(19,153)</u>	<u>(79,845)</u>

**Note 5      Key Management Personnel Compensation**

KMP are defined as any persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (executive or otherwise) of the entity.

The totals of remuneration paid to KMP of the company during the year are as follows:

	2012 \$	2011 \$
Short-term employee benefits	23,109	86,383
Retirement benefits	2,080	7,775
Total KMP compensation	<u>25,189</u>	<u>94,158</u>

**Other KMP Transactions**

There have been no other transactions involving equity instruments other than those described in the tables above.

For details of other transactions with KMP, refer to Note 24: Related Party Transactions. For details of loans to KMP, refer to Note 9: Trade and Other Receivables.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**Note 6 Auditors' Remuneration**

	2012 \$	2011 \$
Remuneration of the auditor for:		
— auditing the financial report	17,835	15,295
— taxation services	2,911	4,795
— grant acquittal report	-	3,000
	<u>20,746</u>	<u>23,090</u>

**Note 7 Franking Account Balance**

	2012 \$	2011 \$
Balance of franking account at year end adjusted for franking credits arising from:		
— balance brought forward from previous	141,297	42,227
— payment of income tax	61,143	99,070
	<u>202,440</u>	<u>141,297</u>

**Note 8 Cash and Cash Equivalents**

	2012 \$	2011 \$
Cash at bank and on hand	344,722	349,395
	<u>344,722</u>	<u>349,395</u>

**Note 9 Trade and Other Receivables**

	2012 \$	2011 \$
CURRENT		
Trade receivables	60,165	46,193
Provision for impairment	-	-
	<u>60,165</u>	<u>46,193</u>
Other receivables	5,091	-
Total current trade and other receivables	<u>65,256</u>	<u>46,193</u>
NON-CURRENT		
Rental bond	38,750	9,000
	<u>38,750</u>	<u>9,000</u>
Amounts receivable from related parties		
— Other related parties	30,595	31,143
Total non-current trade and other receivables	<u>69,345</u>	<u>40,143</u>

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**Note 10 Inventories**

	2012 \$	2011 \$
CURRENT		
Solar hot water systems and parts at the lower of cost and net realisable value.	143,370	125,751
	<u>143,370</u>	<u>125,751</u>

**Note 11 Other Financial Assets**

	2012 \$	2011 \$
NON CURRENT		
Available-for-sale financial assets	389,560	370,891
Total Non-current Assets	<u>389,560</u>	<u>370,891</u>
<b>Available-for-sale financial assets</b>		
NON CURRENT		
Listed investments, at fair value		
— shares in listed corporations	338,653	319,984
	<u>338,653</u>	<u>319,984</u>
Unlisted investments, at cost		
— shares in other corporations	50,907	50,907
	<u>50,907</u>	<u>50,907</u>
Total non-current available-for-sale financial assets	<u>389,560</u>	<u>370,891</u>

Listed investments include 6 million ordinary shares in Authorised Investment Fund Limited ("AIY"), acquired on 29 June 2009 at fair value of \$319,800, being the transaction price negotiated over many months and based on 5.33 cents per share, the minimum price at which AIY was invested. AIY's bid price at the time was 2.7 cents, which in the opinion of the parties was not based on an active market, nor did it reflect a premium appropriate to the size of the parcel of shares being offered. Mr. David Craig is a director of both the Companies and of AIY, and abstained from voting.

The company allotted 1.6 million of its shares (10%) to AIY at 20 cents for a total consideration of \$320,000.

In the opinion of Directors, this cross investment, together with another unlisted investment, brings potential strategic opportunities in the marketing of products in residential and commercial markets.

For the year ended 30 June 2012, the Directors reviewed the valuation of its holding in AIY shares. In the opinion of the Directors, the AIY shares accounted for at acquisition cost represented fair value at balance date, after considering AIY's interest in Endless Solar Corporation Limited's provisional patents pertaining to its CoolSolar technology, and other relevant information that has since been available post balance date.

**Note 12 Property, Plant and Equipment**

	2012 \$	2011 \$
<b>PLANT AND EQUIPMENT</b>		
Furniture and fittings		
At cost	3,912	3,048
(Accumulated depreciation)	<u>(1,594)</u>	<u>(1,230)</u>
	<u>2,318</u>	<u>1,818</u>
Computer Equipment and Software		
At cost	47,114	46,814
(Accumulated depreciation)	<u>(41,732)</u>	<u>(36,650)</u>
	<u>5,382</u>	<u>10,163</u>
Equipment		
At cost	19,324	8,597
(Accumulated depreciation)	<u>(7,139)</u>	<u>(5,525)</u>
	<u>12,185</u>	<u>3,072</u>
Vehicle		
At cost	28,182	28,182
(Accumulated depreciation)	<u>(13,352)</u>	<u>(10,314)</u>
	<u>14,830</u>	<u>17,867</u>
Total plant and equipment	<u>34,715</u>	<u>32,920</u>
Total property, plant and equipment	<u>34,715</u>	<u>32,920</u>

**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
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**(a) Movements in Carrying Amounts**

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Furniture & Fittings \$	Computer Software \$	Equipment \$	Vehicle \$	Total \$
Balance at 1 July 2010	2,020	13,908	5,120	21,527	42,575
Additions	-	6,419	-	-	6,419
Depreciation expense	(202)	(10,163)	(2,048)	(3,660)	(16,073)
Balance at 30 June 2011	1,818	10,164	3,072	17,867	32,921
Additions	864	300	10,727	-	11,891
Depreciation expense	(364)	(5,082)	(1,614)	(3,037)	(10,096)
Balance at 30 June 2012	2,318	5,382	12,186	14,830	34,715

**Note 13 Intangible Assets**

	2012 \$	2011 \$
Integrated thermal device ("CoolSolar")	846,708	485,036
Patent costs	41,090	-
Goodwill		
Cost	121,847	121,847
Accumulated impairment losses	-	-
Net carrying amount	121,847	121,847
Total intangibles	1,009,646	606,883

Goodwill represents the cost of assets acquired from a Related Party under an Asset Sale Agreement dated 29 June 2007 for consideration of \$150,000, satisfied by the issue of 15 million Preference shares - subsequently converted into Limited Voting Ordinary Shares.

The Directors have reviewed the Goodwill valuation and consider that the valuation is adequate to reflect the level of Goodwill within the Company and therefore no impairment is required.

**"CoolSolar" Project Costs and Valuation**

The value of the "CoolSolar" project has been recorded in the 2012 ESC annual accounts at actual costs. The Board is of the view that the valuation of the project is conservative. The valuation is embodied in provisional patents lodged during the 2012 financial year.

Following a request to our patent attorneys (Griffith Hack), the Group is undertaking research regarding the patent "Landscape" to ascertain the likelihood of being in position to have the "freedom to operate". Based on initial investigation the outlook is positive at this stage, resulting in no impairment in the net carrying value.

**Note 14 Other Assets**

	2012 \$	2011 \$
CURRENT		
Prepayments	44,294	18,418
	44,294	18,418

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**Note 15      Trade and Other Payables**

	2012 \$	2011 \$
CURRENT		
Unsecured liabilities		
Trade payables	106,183	151,142
Sundry payables and accrued expenses	-	79,462
	<u>106,183</u>	<u>230,605</u>

**Note 16      Borrowings**

	2012 \$	2011 \$
CURRENT		
Unsecured liabilities		
Insurance Premium funding	13,212	-
Total current borrowings	<u>13,212</u>	<u>-</u>

**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**Note 17 Tax**

				2012		2011
				\$		\$
<b>CURRENT</b>						
Income tax payable				5,770		60,150
				<u>5,770</u>		<u>60,150</u>
	Opening Balance	Charged to Income	Charged directly to Equity	Changes in Tax Rate	Exchange Differences	Closing Balance
	\$	\$	\$	\$	\$	\$
<b>NON-CURRENT</b>						
<b>Deferred tax liability</b>						
Property, plant and equipment						
- tax allowance	407	-	(407)	-	-	-
- exchange traded options	39,000	-	(39,000)	-	-	-
<b>Balance as at 30 June 2011</b>	<u>39,407</u>	<u>-</u>	<u>(39,407)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Property, plant and equipment						
- tax allowance	-	-	-	-	-	-
- exchange traded options	-	-	-	-	-	-
<b>Balance as at 30 June 2012</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Opening Balance	Charged to Income	Charged directly to Equity	Changes in Tax Rate	Exchange Differences	Closing Balance
	\$	\$	\$	\$	\$	\$
<b>Deferred tax assets</b>						
Provisions	22,584	-	-	-	-	22,585
Recognition of tax losses being recoverable	62,804	-	-	-	-	62,804
<b>Balance as at 30 June 2011</b>	<u>85,388</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,389</u>
Provisions	22,585	(3,470)	-	-	-	19,114
Recognition of tax losses being recoverable	62,804	25,361	-	-	-	88,165
<b>Balance as at 30 June 2012</b>	<u>85,389</u>	<u>21,891</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,279</u>

**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**Note 18 Provisions**

CURRENT	2012	2011
Warranties	\$	\$
Opening balance at beginning of year	22,664	24,023
Amounts used	(1,339)	(1,359)
Balance at end of the year	<u>21,325</u>	<u>22,664</u>
Short-term Employee Benefits		
Opening balance at beginning of year	28,134	35,134
Amounts used	(4,758)	(7,000)
Balance at end of the year	<u>23,376</u>	<u>28,134</u>
Total	<u>44,701</u>	<u>50,798</u>

**Analysis of Total Provisions**

	2012	2011
	\$	\$
Current	44,701	50,798
Non-current	-	-
	<u>44,701</u>	<u>50,798</u>

**Provision for Warranties**

The Provision for Warranty has been recognised having regard to empirical indicators of repairs and replacements historically carried out under Product guarantees. The amount represents the directors' best estimate of costs to be incurred during 2011/2012.

**Note 19 Issued Capital**

	2012	2011
	\$	\$
2012 (1,415,895 fully paid ordinary shares)	92,348	4,000
2012 (30,646,683 fully paid ordinary shares - limited voting rights issue)	<u>1,411,926</u>	<u>572,700</u>
	<u>1,504,274</u>	<u>576,700</u>

**(a) Ordinary Shares (Voting)**

	2012	2011
	No.	No.
At the beginning of reporting period	400,000	400,000
Shares issued during year		
— 21/07/2011 - Rights Issue 1:6	63,333	-
— 03/08/2011 - Share Replacement	480,597	-
— 04/03/2012 - Rights Issue 1:2	<u>471,965</u>	<u>-</u>
At the end of the reporting period	<u>1,415,895</u>	<u>400,000</u>

**(b) Ordinary Shares - (Limited Voting)**

	2012	2011
	No.	No.
At the beginning of the reporting period	17,115,000	17,115,000
— 21/07/2011 - Rights Issue 1:6	2,852,500	-
— 03/08/2011 - Share Replacement	103,570	-
— 04/03/2012 - Rights Issue 1:2	<u>10,575,613</u>	<u>-</u>
At the end of the reporting period	<u>30,646,683</u>	<u>17,115,000</u>



**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**Note 20 Leasing Commitments**

	2012 \$	2011 \$
<b>Operating Lease Commitments</b>		
Non-cancellable operating leases contracted for but not recognised in the financial statements		
Payable — minimum lease payments		
— not later than 12 months	116,875	57,765
— between 12 months and 5 years	106,333	-
	<u>223,208</u>	<u>57,765</u>

The company has entered into two property leases. The property leases are non-cancellable with two-year and three-year terms with rent payable monthly in advance. The rental provisions with the lease agreement require that minimum lease payments shall be increased by CPI. Options exist to renew the leases at the end of their terms. The lease allow for sub-letting of all lease areas.

**Note 21 Contingent Liabilities and Contingent Assets**

There are no contingent liabilities or contingent assets of a material nature as at balance date

**Note 22 Operating Segments**

**Segment Information**

The company and its controlled entities operate in Australia, and in the same business segment of solar energy.

**Note 23 Cash Flow Information**

	2012 \$	2011 \$
<b>Reconciliation of Cash Flow from Operations with Profit after Income Tax</b>		
Net (Deficit) / Profit before income tax	(242,840)	276,171
Income tax benefit	19,153	79,845
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit		
Depreciation	10,096	16,073
Capitalise research and development expenses incurred in prior period	-	(121,320)
Change in assets and liabilities		
(Increase)/decrease in trade receivables	(19,065)	97,233
(Increase)/decrease in prepayments	(25,876)	(7,530)
(Increase)/decrease in inventories	(17,619)	114,357
Increase/(decrease) in trade payables and accruals	(124,427)	(54,272)
Increase/(decrease) in income taxes payable	(54,380)	(38,046)
Increase/(decrease) in deferred taxes payable	(21,892)	(101,345)
Increase/(decrease) in provisions	(6,097)	(8,358)
Cash flow from operations	<u>(482,945)</u>	<u>252,808</u>

**Note 24 Related Party Transactions**

Transactions between related parties are on normal commercial terms and conditions and are no more favourable than those available to external parties unless otherwise stated. Note 9 refers to trade and other amounts receivable from related parties. Note 5 sets out details of compensation paid to Key Management Personnel, and to Options and Shares held by those dates.

**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**Note 25 Financial Risk Management**

The Company's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills, leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	2012 \$	2011 \$
<b>Financial Assets</b>			
Cash and cash equivalents	8	344,722	349,395
Loans and receivables	9	134,601	86,336
Available-for-sale financial assets			
— at fair value			
— listed investments	11	338,653	319,984
— at cost			
— unlisted investments	11	50,907	50,907
Total available-for-sale financial assets		<u>389,560</u>	<u>370,891</u>
<b>Total Financial Assets</b>		<u><u>868,882</u></u>	<u><u>806,621</u></u>
<b>Financial Liabilities</b>			
Financial liabilities at amortised cost			
— Trade and other payables	15	106,183	230,605
— Borrowings	16	13,212	-
<b>Total Financial Liabilities</b>		<u><u>119,395</u></u>	<u><u>230,605</u></u>

**Financial Risk Management Policies**

The Finance Committee has been delegated responsibility by the Board of Directors for, among other issues, managing financial risk exposures of the Company. The Finance Committee monitors the Company's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to counterparty credit risk, currency risk, liquidity risk and interest rate risk.

The Finance Committee's overall risk management strategy seeks to assist the company in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the credit risk policies and future cash flow requirements.

**Specific Financial Risk Exposures and Management**

The main risks the entity is exposed to through its financial instruments are credit risk and liquidity risk. There have been no substantive changes in the types of risks the Company is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

**a. Credit risk**

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the entity.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating or in entities that the Finance Committee has otherwise assessed as being financially sound. Where the Company is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, the risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

*Credit Risk Exposures*

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period, excluding the value of any collateral or other security held is equivalent to the carrying amount and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**b. Liquidity risk**

Liquidity risk arises from the possibility that the entity might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The entity manages this risk through the following mechanisms:

- preparing forward-looking cash flow analyses in relation to its operational, investing and financing activities
- using derivatives that are only traded in highly liquid markets
- monitoring undrawn credit facilities
- obtaining funding from a variety of sources
- maintaining a reputable credit profile
- managing credit risk related to financial assets
- only investing surplus cash with major financial institutions
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

**Note 26 Parent Information**

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

	2012 \$	2011 \$
<b>Statement of Financial Position</b>		
<b>Assets</b>		
Current assets	1,523,599	1,047,181
Non-current assets	1,399,305	977,878
Total assets	<u>2,922,904</u>	<u>2,025,059</u>
<b>Liabilities</b>		
Current liabilities	108,235	219,742
Non-current liabilities	-	-
Total liabilities	<u>108,235</u>	<u>219,742</u>
<b>Equity</b>		
Issued capital	1,504,275	576,700
Retained earnings	1,228,617	432,389
Current earnings	81,778	796,228
Total equity	<u>2,814,670</u>	<u>1,805,317</u>
<b>Statement of Comprehensive Income</b>		
Total profit	81,778	796,228
Total comprehensive Income	<u>81,778</u>	<u>796,228</u>

**Note 27 Controlled Entities**

Interests are held in the following associated companies

Name	Incorporation	Shares	Interest		Amount of	
			2012 %	2011 %	2012 \$	2011 \$
Unlisted:						
Endless Solar Operations Pty Ltd	Australia	Ord	100	100	100	100
					<u>100</u>	<u>100</u>

**Note 28 Company Details**

The registered office of the company is:  
 Endless Solar Corporation Limited & Controlled Entities  
 Level 10, 406 Collins Street, Melbourne VIC 3000

The principal place of business is:  
 Endless Solar Corporation Limited & Controlled Entities  
 Unit 1, 340 Chisholm Road, Auburn, NSW, 2144

**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**DIRECTORS' DECLARATION**

In accordance with a resolution of the directors of Endless Solar Corporation Limited & Controlled Entities, the directors of the company declare that:

1. the financial statements and notes, as set out on pages, as set out on pages 5 to 25, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
  - (b) give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date of the company.
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.



Director

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**Mr David H.A Craig**

Dated this    19    day of    OCTOBER                      2012



**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES ABN: 51 122 708 061**  
**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF**  
**ENDLESS SOLAR CORPORATION LIMITED & CONTROLLED ENTITIES**

**Report on the Financial Report**

We have audited the accompanying financial report of Endless Solar Corporation Limited & Controlled Entities, which comprises the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the company at the year's end or from time to time during the financial year.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determined this necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with the International Financial Reporting Standards (IFRS).

*Auditor's Responsibility*

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

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

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

*Independence*

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

*Auditor's Opinion*

In our opinion:

- a. the financial report of Endless Solar Corporation Limited & Controlled Entities is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001;
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

  
John Wheller  
Registered Company Auditor

Dated this day 19<sup>th</sup> of OCTOBER 2012

Registered Company Auditor No.9003

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