



Quantum Energy Limited

**And its controlled entities**

**A.B.N. 19 003 677 245**

Annual Report  
For the Financial Year Ended  
30 June 2010

## Quantum Energy Limited and Controlled Entities

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This financial report was authorised for issue by the Board of Directors on 29 September 2010. The Company has the power to amend and re-issue the financial report.

**Quantum Energy Limited and Controlled Entities**  
**Financial Report for the Year Ended 30 June 2010**

**NOTICE OF ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of Quantum Energy Limited will be held at the Registered Office of the Company, 56-60 Bourke Road, Alexandria, NSW 2015 on 26 November 2010 at 3.00 pm.

**BUSINESS**

1. To receive the financial report of the Company and of the consolidated Group for the year ended 30 June 2010 and the reports by directors and auditors thereon.
2. To elect one director
  - i. Drew Townsend who retires by rotation in accordance with the provisions of the constitution and, being eligible, offers himself for re-election.
3. To receive, consider and adopt the remuneration report of the consolidated Group for the year ended 30 June 2010.
4. General: To transact any business which may be lawfully brought forward.

By Order of the Board



John Walstab

Secretary

Date: 29 September 2010

## Quantum Energy Limited and Controlled Entities

A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in their stead. That person need not be a member of the Company, but should be a natural person over the age of 18 years. Forms must be lodged at the registered office of the Company not less than 48 hours before the timing of the meeting.

### PROXY FORM

Registered Office: 56-60 Bourke Road, Alexandria, NSW 2015

I/We .....  
of .....  
being a member/members of Quantum Energy Limited hereby appoint  
of .....  
or in his/her absence, .....  
of .....  
or in his/her absence, the Chairman of the Meeting as my/our general/special proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held at 3:00pm on 26 November 2010 or at any adjournment of that meeting.

signed this ..... day of ..... 2010

Signature of Shareholder

Unless otherwise instructed the proxy will vote as he or she thinks fit, or abstain from voting. If the chairman is appointed proxy, he will vote all undirected proxies in favour of all resolutions. Should the member wish to direct the proxy how to vote, the following should be completed.

FOR	AGAINST	ABSTAIN
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Agenda item No.:

1. Adoption of Financial Report
2. Election and appointment of Director —  
Re-election of Drew Townsend
3. Adopt the remuneration report

# Quantum Energy Limited and Controlled Entities

## CORPORATE GOVERNANCE STATEMENT

Quantum Energy is committed to good corporate governance and disclosure and the Company has adopted most of the ASX's "Corporate Governance Principles and Recommendations". Where specific ASX recommendations have not been adopted, the Company provides an explanation which is detailed below.

### Board Composition

The names of the directors of the Company (as at the date of this report) are detailed below:

John Walstab	Executive director
Phillip Sidney	Managing director
Drew Townsend (Chairman)	Non-executive director

All directors have been in office since the start of the financial year.

## 1. Lay solid foundations for management and oversight

### 1.1 Formalise and disclose the functions of the Board and management

The directors of the Company are accountable to shareholders for the proper management of the business and affairs of the Company. The directors are members of the Board.

The key responsibilities of the Board are:

- the oversight of the Company, including its control and accountability systems;
- establishing, monitoring and modifying corporate strategies and performance objectives;
- ensuring that appropriate risk management systems, internal compliance and control, reporting systems, codes of conduct, and legal compliance measures are in place;
- monitoring the performance of management and implementation of strategy, and ensuring appropriate resources are available;
- approving and monitoring of financial and other reporting;
- approving dividends, major capital expenditure, acquisitions and capital raising;
- appointment and removal of executives, Company secretary and senior management.

### 1.2 The performance of executives

The performance of executives is assessed by the Board and the Board makes decisions on the number and bases of any bonuses and options. Senior executives are assessed regularly by the Board.

## 2. Structure the Board to add value

### 2.1 Board composition

The composition of the Board has been detailed above.

The skills, experience and expertise relevant to the position of each director who was in office at the date of the 2010 Annual Report and their term of office are detailed in the Directors' Report.

While none of the Board members are independent directors, the Board believes that the people on the Board can and do make independent judgements in the best interests of the Company at all times.

Directors have the right to seek independent professional advice in the furtherance of their duties as directors at the Company's expense. Approval must be obtained from the chairman prior to incurring any expenses on behalf of the Company.

# Quantum Energy Limited and Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### 2.1 Board composition (continued)

When determining whether a non-executive director is independent the director must not fail any of the following materiality thresholds:

- Must not be a substantial shareholder or 'associated directly with' a substantial shareholder of the Company (a substantial shareholder holding 5% or more of the shares issued by the Company).
- Must not have been employed as an executive by the Company or a Group member within the previous three years after ceasing to hold such employment.
- Must not be a principal of a 'material professional advisor' or a 'material consultant' to the Company or a Group member.
- Must not be a material supplier or customer of the Company (or a Group member) or an officer of or otherwise associated directly or indirectly with a material supplier or customer.
- Must not have served on the Board for a period which could be perceived to materially interfere with the director's ability to act in the best interests of the Company.
- Must be free from any interest and any business or other relationship which could reasonably be perceived to materially interfere with director's ability to act in the best interests of the Company.

Details of the skills, experience and expertise of each director are included in the Directors' Report for the year ended 30 June 2010.

### 2.2 Chair of the Board

The Chair is a non-executive director and not an independent director. The Board believes that the chair is able to formulate proper and independent judgement on all relevant issues falling within the scope of the role of a chair.

### 2.3 Roles of managing director and chair

The roles of managing director and chair are not exercised by the same individual. The Board has delegated day to day responsibility for the management of the Company to the executive directors. The executive directors must consult the Board on all matters that are sensitive, extraordinary or of a strategic nature.

### 2.4 Nomination committee

The Company does not have a nomination committee as the size of the Company and the Board does not warrant such a committee. All Board nomination matters are considered by the whole Board.

### 2.5 Evaluating Performance of Board and directors

No formal performance evaluation of the Board and directors was conducted for the financial year ended 30 June 2010. The chair speaks to each director individually regarding their role as director.

## 3. Promote ethical and responsible decision – making

### 3.1 Code of conduct

The Company recognises the need for directors and employees to observe the highest standards of behaviour and business ethics. All directors and employees are expected to act in accordance with the law and with the highest standard of propriety. The responsibility for reporting and investigating reports of unethical practices rests with the Board including the executive directors.

# Quantum Energy Limited and Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### **3.2 Share trading policy**

The Company's policy regarding directors and employees trading in its securities is set by the Board. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.

## **4. Safeguard integrity in financial reporting**

### **4.1 Audit and risk management committee**

The Company has an Audit and Risk Management Committee.

### **4.2 Structure of audit and risk management committee**

Due to the size of the Board the members of the Audit and Risk Management Committee include all three directors with Drew Townsend as the Chairman of the Committee. This Committee provides assistance in fulfilling the corporate governance and oversight responsibilities of the Board to verify and safeguard the integrity of the financial reporting of the Company.

The Directors' Report details members of the committee and meetings held during the financial year.

### **4.3 Committee charter**

The Audit and Risk Management Committee does not have a formal charter.

The Audit and Risk Management Committee is responsible for the appointment of the external auditor. The audit engagement partner is required to rotate every 5 years.

## **5. Make timely and balanced disclosure**

Quantum Energy has established procedures to ensure compliance with the ASX Listing Rules so that Company announcements are made in a timely manner, are factual, do not omit material information and are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions. Established policies also ensure accountability at a senior management level for ASX compliance.

The Board considers all disclosures necessary to ensure compliance with ASX Listing Rule disclosure requirements.

## **6. Respect the rights of shareholders**

Quantum Energy has a communications strategy and an established policy on stakeholder communication and continuous disclosure to promote effective communication with shareholders, subject to privacy laws and the need to act in the best interests of the Company by protecting commercial information.

The auditor is invited to the Annual General Meeting, to be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

# Quantum Energy Limited and Controlled Entities

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### **7. Recognise and manage risk**

#### **7.1 The Board has established policies on risk oversight and management.**

The executive directors continually monitor areas of significant business risk. Once particular risks are identified it is the responsibility of the whole Board to ensure that management takes such action as is required to manage the risk.

To carry out the risk oversight and management function the Audit and Risk Management Committee:

- reviews the financial reporting process of the Company including financial reports;
- discusses with management and the external auditors the adequacy and effectiveness of the accounting and financial controls, including the policies and procedures of the Company to assess, monitor and manage business risk;
- reviews with the external auditor any audit problems and the Company's critical policies and practices;
- reviews and assesses the independence of the external auditor.

#### **7.2 Risk management and internal controls**

The Board requires management to:

- design and implement the risk management and internal control system to manage the Company's material business risks.
- report to it on whether those risks are being managed effectively.

Management has reported to the Board in relation to risk management, and the Board considers that the major business risks are being managed effectively.

The systems are designed to provide reasonable, but not absolute, protection against fraud and material misstatement. These controls are intended to identify, in a timely manner, control issues that require attention by the Board or Audit and Risk Management Committee.

#### **7.3 Assurances from CEO and CFO**

The Board believes the system of internal financial control which has been established by management is operating effectively in all material respects in relation to financial reporting risk.

The Corporations Act 2001 requires the Managing Director and CFO to state in writing to the Board that the financial reports of the Company present a true and fair view, in all material respects, of the Company's financial position and operational results and are in accordance with relevant accounting standards, that this declaration is founded on a sound system of risk management and internal compliance and control which implement the policies adopted by the Board, and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

### **8. Remunerate fairly and responsibly**

#### **8.1 Remuneration policy and committee**

The remuneration policy, which sets the terms and conditions for remuneration of executive directors and other senior executives, has been approved by the Board. Due to the size of the Board the Company does not have a remuneration committee. Details of these contracts are included in the Remuneration Report in the Directors' Report for the year ended 30 June 2010. The Board reviews executive packages annually by reference to Company performance, executive performance, comparable information from industry sectors and other listed companies.



## Quantum Energy Limited and Controlled Entities

### CORPORATE GOVERNANCE STATEMENT (CONTINUED)

#### **8.2 Structure of directors and executive remuneration**

The amount of remuneration of all directors and executives, including all monetary and non-monetary components, is detailed in the Directors' Report.

Payment of equity-based executive remuneration is within thresholds approved by shareholders.

The Board expects that the remuneration structure implemented will result in the Company being able to attract and retain the best executives to run the businesses. It will also provide executives with necessary incentives to work to grow long-term shareholder value.

# Quantum Energy Limited and Controlled Entities

## DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report of Quantum Energy Limited ("the Company") and its controlled entities (together refer to as "the Group") for the financial year ended 30 June 2010.

### Directors

The Directors of the Company at any time during or since the end of the financial year are:

Mr Drew Townsend (Chairman)

Mr Philip Sidney

Mr John Walstab

Directors have been in office since the start of the financial year to the date of this report. The particulars of the qualifications, experience and independence status of each Director, as at the date of this report are set out in the report.

Mr Walstab has also been acting as the Company Secretary since the start of the financial year to the date of this report.

### Principal Activities

The principal activities of the Group during the financial year continue to be:

Manufacture and distribution of energy saving hot water, heating and cooling systems for residential and commercial markets in Australia and internationally.

Distribution of high end medical products particularly in the field of nuclear medicine.

There were no significant changes in the nature of the Group's principal activities during the financial year.

### Operating results

The total comprehensive income of the Group after providing for income tax amounted to \$8,950,000 (2009: \$29,785,000).

### Review of Operations

The Directors of Quantum Energy Limited are pleased with the strong performance for the year ended 30 June 2010, notwithstanding the Group had a decrease in net profit compared to the prior year. The decline in business performance arose because of changes in government incentives and legislation during the year. Quantum is now focused on new sales and distribution channels to continue to support and grow its sales within Australia.

Internationally, Quantum still continues to pursue opportunities in Asia and other areas. We anticipate new sales will facilitate a strong international performance in the financial year 2011.

# Quantum Energy Limited and Controlled Entities

## DIRECTORS' REPORT (CONTINUED)

### Medical business

Quantum's medical division is a high end medical distribution business which provides sales, servicing and support for a range of diagnostic imaging equipment. As previously indicated the Group has successfully negotiated an arrangement with Phillips Medical Systems that should consolidate future growth and profitability of the business.

Quantum expects the result from this business will improve considerably in financial year 2011 and is committed to developing this business.

### Financial position

The net assets of the Group have increased by \$8,957,530 during the year ended 30 June 2010. The Directors believe the Group is in a strong and stable financial position to expand and grow its current operations.

### Significant changes and state of affairs

During the financial year, there were no significant changes in the state of affairs of the Group.

### Events subsequent to balance date

In the interval between the end of financial year and the date of this report there has not been any item, transaction or event of a material and unusual nature which is likely, in the opinion of the Directors of the Group, to significantly effect the operations of the Group, the results of those operations or the state of affairs of the Group in the future financial year.

### Future developments, prospects and business strategies

The Directors expect financial year 2011 will be a period of growth for both of the Group's businesses.

### Dividends paid or recommended

No dividends were paid or declared for payment during the financial year or since the end of the financial year.

### Environmental Issues

The Group's operations are not significantly effected by environmental regulations except to the extent that government regulatory legislation for environmental technologies may impact the growth of sales of energy efficient products.

### Information on the Directors

The following persons were directors during the whole of the financial year and up to the date of this report:

## Quantum Energy Limited and Controlled Entities

### DIRECTORS' REPORT (CONTINUED)

- Drew Townsend** — Chairman and Non-Executive Director.
- Qualifications — Bachelor of Commerce, Member of Institute of Company Directors and Member of Institute of Chartered Accountants.
- Experience — Appointed Chairman 2003. Board member since 2003. Over 20 years experience in Australian and International accounting and finance.
- Interest in Shares and Options — 759,991,417 ordinary shares (most are held jointly with other directors) in Quantum Energy Limited.
- 
- Phillip Sidney** — Managing Director
- Experience — Board member since 2002. Wide range of experience in manufacturing and marketing both in Australia and overseas.
- Interest in Shares and Options — 760,761,207 ordinary shares (most are held jointly with other directors) in Quantum Energy Limited Public Limited.
- 
- John Walstab** — Executive Director and Company Secretary
- Experience — Board member since 2003. Wide range of experience in technology organisations and developing overseas markets.
- Interest in Shares and Options — 85,018,434 ordinary shares (863,550 shares are held jointly with other directors) in Quantum Energy Limited.

None of the directors hold, or have held, a position as Director of another listed Company at any time in the 3 years prior to 30 June 2010.

#### Meetings of Directors

During the financial year, 8 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Board of Directors		Audit & Risk Management Committee	
	Number eligible to Attend	Attended	Number eligible to Attend	Attended
Mr D.A. Townsend	8	8	2	2
Mr P.G. Sidney	8	8	2	2
Mr J. Walstab	8	8	2	2

#### Indemnifying Officers or Auditors

During the financial year the Company paid a premium in respect of a contract insuring the directors of the Company against any liability incurred as such by a director or secretary to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has, during the financial year, agreed to indemnify officers of the Company or any related body against a liability incurred by such an officer.

# Quantum Energy Limited and Controlled Entities

## DIRECTORS' REPORT (CONTINUED)

### Options

At the date of this report, the unissued ordinary shares of Quantum Energy Limited under options are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
18/09/2006	31/08/2011	\$0.10	4,000,000
			<hr/> 4,000,000 <hr/>

Option holders do not have any rights by virtue of the options to participate in any issues of shares by the Company or any other entity.

For details of options issued to directors and executives as remuneration, refer to the Remuneration Report.

During the year ended 30 June 2010, no ordinary shares of Quantum Energy Limited were issued on the exercise of options. No options have been granted since year end.

### 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

There were no non-audit services provided during the year to the Group by HLB Mann Judd (NSW Partnership) or any related entity.

### Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2010 has been received and a copy can be viewed on page 18 of the Annual Report.

### ASIC Class Order 98/100 Rounding of Amounts

The Company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and Directors' Report have been rounded to the nearest thousand dollars, or in certain cases to the nearest dollar.

This report outlines the remuneration arrangements in place for each director of Quantum Energy Limited and for the executives receiving the highest remuneration.

# Quantum Energy Limited and Controlled Entities

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT (Audited) (continued)

#### **(1) Remuneration philosophy**

The performance of Quantum Energy Limited depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, Quantum Energy embodies the following principles in its remuneration framework:

- provide competitive rewards to attract high calibre executives
- link executive rewards to shareholder value
- establish appropriate, demanding performance hurdles in relation to variable executive remuneration.

While Quantum Energy Limited does not have a remuneration committee, the Board of directors is responsible for determining and reviewing compensation arrangements for the directors, and the senior management team.

#### **Remuneration structure**

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

#### ***Non-executive director remuneration***

As all directors of the Company are stakeholders, director's remuneration is not as important as is generally the case.

The only non-executive director is Drew Townsend, who did not receive remuneration in this period.

#### ***Senior executives and executive director remuneration***

##### *Objective*

Quantum Energy Limited aims to reward executives with a level and mix of remuneration which is commensurate with their position, their responsibilities within the Company, their length of service and the overall performance of the Company, and so as to:

- reward executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link rewards with the strategic goals and performance of the Company;
- ensure total remuneration is competitive by market standards.

##### *Structure*

Details of contracts with Directors and senior executives are shown below.

Remuneration for senior managers and executive directors consists of the following key elements:

- fixed remuneration
- variable remuneration being short and long term incentives

##### *Fixed Remuneration*

Fixed remuneration is reviewed regularly. Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicle leases. The remuneration component of the key management personnel (directors and most highly remunerated senior managers) is detailed below.

##### *Variable Remuneration*

The objectives of the short and long term incentive plans are:

# Quantum Energy Limited and Controlled Entities

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT (Audited) (continued)

- to link the achievement of the Company's operational targets with the remuneration received by the executives charged with meeting those targets; and
- to reward directors and senior executives in a manner which aligns this element of remuneration with the creation of shareholder wealth.

#### *Incentives*

- Short term incentives are delivered in the form of cash bonus rewards, being incentive payments based on key performance indicators such as sales targets.
- Long term incentives are delivered in the form of options. Details of options granted to directors and key management personnel in the 2010 financial year are set out below.

#### *Company performance, shareholder wealth and director and executive remuneration*

The following table shows the performance of the Consolidated Group during the past five financial years:

<b>Fiscal Year</b>	<b>Sales Revenue</b>	<b>NPAT/ (NLAT)</b>	<b>Basic EPS</b>	<b>Share price at balance date</b>	<b>Net Equity</b>	<b>NTA per share</b>
	<b>\$000</b>	<b>\$000</b>	<b>Cents</b>	<b>Cents</b>	<b>\$000</b>	<b>\$</b>
2006	11,815	(5,682)	(0.63)	0.06	8,408	(0.02)
2007	35,971	3,915	0.38	0.09	12,344	(0.01)
2008	29,590	(7,704)	(0.75)	0.05	4,661	(0.01)
2009	106,422	30,261	2.97	0.25	34,492	0.02
2010	81,200	8,469	0.83	0.08	43,449	0.03

No dividends have been paid by the Company during the past 5 years.

The employment conditions of the Managing Director, Philip Sidney, Director Mr. John Walstab, and other specified executives are formalised in contracts of employment. All executives are permanent employees of Quantum Energy Limited or its controlled entities.

### **(2) Employment contracts for director and senior executives**

Under the terms of the present employment contracts, which have no fixed term, the executives may resign from their positions and thus terminate their contract by giving one month's written notice. The Company may terminate these employment agreements by providing one to three month's written notice or by payment in lieu of the notice period based on the executive's fixed component of remuneration. There are no other termination payments included in the contracts. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

### **(3) Remuneration of Key Management Personnel and Other Executives**

The key management personnel of the Group and the specified executives of the Company and the Group are the directors of the Company and the executives as set out in the table below. This includes the 5 highest remunerated Group and /or Company executives.

# Quantum Energy Limited and Controlled Entities

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT (Audited) (continued)

Footnote	Short-Term Benefits			Post-Employment Benefits	Share-Based Benefits	Total
	Salary/Fees and Commission	Cash Bonus	Non-monetary Benefits	Superannuation	Options	
	\$	\$	\$	\$	\$	\$

#### Executive Directors

P.G Sidney	2	2010	450,000	-	3,012	40,500	-	493,512
		2009	287,500	-	2,932	25,875	-	316,307
J. Walstab		2010	150,000	-	-	13,500	-	163,500
		2009	150,000	-	-	13,500	-	163,500
Total Directors		2010	600,000	-	3,012	54,000	-	657,012
Total Directors		2009	437,500	-	2,932	39,375	-	479,807

#### Key Executives

B. Harrold (Appointed 30 November 2009)		2010	96,060	-	1,012	8,645	-	105,717
		2009	-	-	-	-	-	-
M. Walstab (Resigned in October 2008)		2010	-	-	-	-	-	-
		2009	63,997	-	-	5,753	4,989	74,739
A. McDonald	1	2010	247,050	50,000	4,756	22,235	-	324,041
		2009	150,000	-	6,816	13,500	-	170,316
Y. You	1 & 2	2010	205,000	-	262	18,450	8,304	232,016
		2009	190,290	-	-	17,063	25,536	232,889
J. Hewlett	1	2010	115,000	-	-	10,350	-	125,350
		2009	115,000	-	-	10,350	-	125,350
R. McLean (Resigned on 26 March 2010)	1 & 2	2010	235,675	-	440	19,117	-	255,232
		2009	190,000	-	-	17,100	11,103	218,203
A. Fairfull (Appointed 24 May 2010)	2	2010	14,172	-	-	1,275	-	15,447
		2009	-	-	-	-	-	-
S Goulter (Resigned on 05 May 2010)	1	2010	135,389	-	-	11,242	-	146,631
		2009	123,249	-	-	10,893	4,130	138,272
Total Key Executives		2010	1,048,346	50,000	6,470	91,314	8,304	1,204,434
Total Key Executives		2009	832,536	-	6,816	74,659	45,758	959,769
Grand Total		2010	1,648,346	50,000	9,482	145,314	8,304	1,861,446
Grand Total		2009	1,270,036	-	9,748	114,034	45,758	1,439,576

1. Denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the Corporations Act 2001.
2. Executive of Quantum Energy Ltd - some remuneration may be paid by a controlled entity. Other key management personnel remuneration is paid by controlled entities.



# Quantum Energy Limited and Controlled Entities

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT (Audited) (continued)

Relative proportion of remuneration linked to performance

	2010 %	2009 %
A. McDonald	15	-
M. Walstab	-	7
Y. You	4	11
R. McLean	-	5
S. Goulter	-	3

#### (4) Changes in Directors and Executives Subsequent to Year-end

There has been no change in directors or executives subsequent to year end.

#### (5) Options and Rights Granted and Exercised

During the financial year ended 30 June 2010, there were no options/ rights issued or exercised.

#### *Description of Options/Rights Issued as Remuneration*

Details of the options granted as remuneration to those key management personnel and executives listed in the previous table are as follows:

Name	Grant date	Grant number	Date vested & exercisable	Last date exercisable	Exercise price	Value per option at grant date
					\$	\$
Y.You	18/09/2006	666,667	1/09/2009	31/08/2011	0.10	0.024
Y.You	18/09/2006	666,667	1/09/2010	31/08/2011	0.10	0.024
Y.You	18/09/2006	666,666	1/07/2011	31/08/2011	0.10	0.024

Option values at grant date were determined using the Black-Scholes method. The exercise price is set in relation to the market price at date of the grant. All options were granted for \$Nil consideration. Each option is convertible into one ordinary share. Options carry no voting or dividend rights. These options lapse on termination of employment. The only grants of options affecting remuneration of key management personnel in the previous, this or future reporting periods are those shown above. Other options are held by key management personnel; these were acquired in transactions common to all shareholders.

This Directors Report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



Phillip Sidney  
Director  
29 September 2010

**AUDITOR'S INDEPENDENCE DECLARATION**

To the Directors of Quantum Energy Limited and its controlled entities:

As lead auditor for the audit of Quantum Energy Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements of 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.

This declaration is in relation to Quantum Energy Limited and the entities it controlled during the year.



**D K Swindells**  
Partner

**28 September 2010**

**QUANTUM ENERGY LIMITED  
ACN 19 003 677 245****INDEPENDENT AUDITOR'S REPORT**

To the members of Quantum Energy Limited:

**Report on the Financial Report**

We have audited the accompanying financial report of Quantum Energy Limited ("the Company"), which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 21 to 56.

***Directors' Responsibility for the Financial Report***

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the consolidated financial statements comply with International Financial Reporting Standards.

***Auditor's Responsibility***

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

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

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

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

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### **Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Quantum Energy Limited on 30 September 2010 would be in the same terms if provided to the directors as at the time of this auditor's report.

### **Auditor's Opinion**

In our opinion:

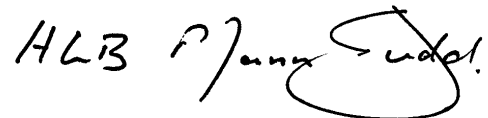
- (a) the financial report of Quantum Energy Limited is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - ii. complying with Australian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

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 13 to 17 of the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### **Auditor's Opinion**

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

A handwritten signature in black ink that reads 'HLB Mann Judd'.

**HLB MANN JUDD**  
**Chartered Accountants**

A handwritten signature in black ink that reads 'D K Swindells'.

**D K Swindells**  
**Partner**

**Sydney**  
**29 September, 2010**

## Quantum Energy Limited and Controlled Entities

### DIRECTORS' DECLARATION

The directors of the Company declare that:

1. In the directors opinion:
  - (a) the financial statements and notes, as set out on page 22-56, are in accordance with the Corporations Act 2001, including:
    - (i) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
    - (ii) giving a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the Company and the consolidated Group, and
  - (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The notes to the financial statements include a statement of compliance with International Financial Reporting Standards.
3. The directors have been given the declaration by the Chief Executive Officer and Chief Financial Officer for the year ended 30 June 2010 required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors



Phillip Sidney  
Director

29 September 2010

## Quantum Energy Limited and Controlled Entities

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

	Note	Consolidated	
		2010	2009
		\$000	\$000
Sales Revenue	2	78,947	107,315
Other Revenue	2	2,253	343
Cost of Sales		( 39,303)	( 52,167)
Employee benefits expense		( 11,517)	( 8,104)
Depreciation and amortisation expense – non-manufacturing		( 529)	( 232)
Advertising and promotion expenses		( 928)	( 428)
Finance costs	3	( 1,562)	( 1,630)
Legal fees		( 286)	( 183)
Profit (loss) on disposal of plant & equipment		( 17)	1
Impairment of receivables:			
- External		( 1,359)	14
Travel expenses		( 1,236)	( 852)
Motor vehicle expenses		( 872)	( 752)
Warranty expenses		( 411)	( 1,564)
Telephones & internet		( 395)	( 365)
Consultants		( 609)	( 360)
Freight & delivery expenses		( 247)	( 955)
Occupancy (rent) expenses		( 2,121)	( 835)
Profit (loss) on disposal of Renewable Energy Certificates		( 487)	3,560
Fair value loss on financial assets (Renewable Energy Certificates)		( 2,283)	-
Other expenses		( 3,990)	( 2,409)
Profit (loss) before income tax		13,048	40,397
Income tax (expense) credit	4	( 4,579)	(10,136)
<b>Net profit attributable to members of the parent entity</b>		<b>8,469</b>	<b>30,261</b>
<b>Other comprehensive income</b>			
Translation of foreign subsidiaries		481	( 476)
<b>Total comprehensive income for the year</b>		<b>8,950</b>	<b>29,785</b>
<b>Earnings per share:</b>			
Basic earnings per share (cents per share)	7	0.83	2.97
Diluted earnings per share (cents per share)	7	0.83	2.96

The accompanying notes form part of these financial statements.

## Quantum Energy Limited and Controlled Entities

### BALANCE SHEET AS AT 30 JUNE 2010

	Note	Consolidated	
		2010 \$000	2009 \$000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	2,734	3,308
Trade and other receivables	9	14,854	34,132
Inventories	10	22,544	30,847
Financial assets	11	26,844	73
Other current assets	16	2,422	6,079
<b>TOTAL CURRENT ASSETS</b>		<b>69,398</b>	<b>74,439</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	9	356	-
Property, plant and equipment	13	2,286	2,049
Deferred tax assets	14	2,501	2,722
Intangible assets	15	11,955	11,955
Other	16	163	153
<b>TOTAL NON-CURRENT ASSETS</b>		<b>17,261</b>	<b>16,879</b>
<b>TOTAL ASSETS</b>		<b>86,659</b>	<b>91,318</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	17	15,910	30,089
Borrowings	18	15,157	4,862
Current tax liabilities	19	2,008	7,728
Short term provisions	20	1,535	1,561
<b>TOTAL CURRENT LIABILITIES</b>		<b>34,610</b>	<b>44,240</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liability		-	99
Borrowings	18	8,276	12,235
Employee benefits		324	252
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>8,600</b>	<b>12,586</b>
<b>TOTAL LIABILITIES</b>		<b>43,210</b>	<b>56,826</b>
<b>NET ASSETS</b>		<b>43,449</b>	<b>34,492</b>
<b>EQUITY</b>			
Issued capital	21	83,789	83,789
Reserves	22	638	150
Retained earnings (accumulated losses)		(40,978)	(49,447)
<b>TOTAL EQUITY</b>		<b>43,449</b>	<b>34,492</b>

The accompanying notes form part of these financial statements.

## Quantum Energy Limited and Controlled Entities

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

	Ordinary Share Capital	Option Reserve	Undistributable Profits Reserve	Exchange Translation Reserve	Retained Earnings (Losses)	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Consolidated</b>						
Balance at 1 July 2008	83,789	90	134	(14)	(79,338)	4,661
Transfer from retained earnings	-	-	370	-	(370)	-
Total comprehensive income for the year	-	-	-	(476)	30,261	29,785
Transactions with owners in their capacity as owners:						
Options issued to employees	-	46	-	-	-	46
Balance at 30 June 2009	83,789	136	504	(490)	(49,447)	34,492
Balance at 1 July 2009	83,789	136	504	(490)	(49,447)	34,492
Total comprehensive income for the year	-	-	-	481	8,469	8,950
Transactions with owners in their capacity as owners:						
Options issued to employees	-	7	-	-	-	7
Balance at 30 June 2010	83,789	143	504	(9)	(40,978)	43,449

The accompanying notes form part of these financial statements.



## Quantum Energy Limited and Controlled Entities

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

	Note	Consolidated	
		2010	2009
		\$000	\$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		58,868	78,216
Receipts from legal case settlement		1,033	-
Payments to suppliers and employees		(71,799)	(72,760)
Interest received		40	56
Finance costs		( 2,866)	( 980)
Income tax refunded / (paid)		(10,177)	(506)
Net cash provided by (used in) operating activities	25	(24,901)	4,026
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		( 424)	( 681)
Proceeds of sale of property, plant and equipment		54	-
Dividends received from unrelated entity		8	-
Payments for financial assets		(16,303)	-
Proceeds from sale of financial assets		36,043	-
Net cash provided by (used in) investing activities		19,378	(681)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		15,310	300
Repayments of borrowings		( 10,506)	( 3,008)
Payment of pre-acquisition creditors		-	-
Net cash provided by (used in) financing activities		4,804	( 2,708)
Net (decrease) increase in cash held		( 719)	637
Cash at beginning of financial year		1,408	771
Cash at end of financial year	8	689	1,408

The accompanying notes form part of these financial statements.

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

This financial report includes the consolidated financial statements of Quantum Energy Limited and controlled entities ('consolidated Group' or 'Group').

#### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

##### **Basis of Preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions.

The financial statements also comply with International Financial Reporting Standards.

Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

##### (a) **Principles of Consolidation**

A controlled entity is any entity over which Quantum Energy Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 12 to the financial statements.

The assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year.

All inter-Group balances and transactions between entities in the consolidated Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

##### (b) **Income Tax**

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

Current income tax expense (credit) charged to profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are 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 (credit) is charged or credited directly to equity instead of profit or loss when the tax relates to items that are credited or charged directly to equity.

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

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, 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.

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Income Tax (continued)**

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

##### **Tax Consolidation**

Quantum Energy Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated Group under tax consolidation legislation. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately assumed by the head entity. The Group notified the Tax Office that it had formed an income tax consolidated Group to apply from 1 July 2003. The tax consolidated Group has entered a tax sharing agreement whereby each Company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities recognised pursuant to the tax sharing agreement are recognised as either a contribution by, or distribution to, the head entity.

##### (c) **Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity.

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

Each class of property, plant and equipment is carried at cost less accumulated depreciation and impairment losses.

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.

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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

##### **Depreciation**

The depreciable amount of all plant and equipment, including buildings and capitalised lease assets, is depreciated on a straight-line basis over the asset's useful life to the consolidated Group 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.

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Property, Plant and Equipment (continued)

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

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Plant and equipment	15%– 20%
Office Equipment	33%
Motor Vehicles	12.5% – 23%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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 disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

##### (e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the Group are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

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

##### (f) Financial Instruments

###### *Recognition*

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

###### *Financial assets at fair value through profit or loss*

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses from changes in the fair value are presented in profit or loss within other income or expenses in the period in which they arise.

###### *Loans and receivables*

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

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Financial Instruments (continued)**

###### *Available-for-sale financial assets*

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are measured at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

###### *Impairment*

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial assets, a significant or prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in profit or loss.

###### *Financial liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising the original debt less principal payments and amortisation.

##### **(g) Impairment of Other Assets**

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

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

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

##### **(h) Intangibles**

###### ***Goodwill***

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business combination exceeds the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisitions. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Any gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

###### ***Functional and Presentation Currency***

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation 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.

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Foreign Currency Transactions and Balances (continued)**

###### ***Group Companies***

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the dates of the transactions.

Exchange differences arising on translation of foreign operations are recognised in other comprehensive income.

##### (j) **Employee Benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. 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.

##### (k) **Provisions**

Provisions are recognised when the Group 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.

##### (l) **Provision for Warranties**

Provision is made in respect of the Group's estimated liability on all products and services under warranty at balance date. The provision is based on the Group's history of claims to settle warranty obligations over the last two years, calculated as a percentage of revenue.

##### (m) **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

##### (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.

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, subject to retention of title conditions.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. 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 reporting date and where outcome of the contract can be estimated reliably.

##### (o) **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) **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 Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(q) **Comparative Figures**

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(r) **Rounding of Amounts**

The Group has applied the relief available to it under ASIC Class Order 98/100; accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$1,000, or in certain cases to the nearest dollar.

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

The directors evaluate estimates and judgments incorporated into the financial report 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 Group.

**Key Estimates**

(i) *Impairment*

The Group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Where any impairment trigger exists, the recoverable amount of the asset is determined. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

**Key Judgements**

(i) *Provision for Impairment of Receivables*

The Directors have reviewed outstanding debtors of the Group as at 30 June 2010, and have formed the opinion that an amount receivable from sales made during the current financial year amounting to \$1,358,913 is not collectable, and have created an allowance for impairment.

(ii) *Provision for Impairment of Inventory*

No provision for impairment was included in inventory at reporting date.

(iii) *Impairment of Goodwill*

The directors have assessed the value of goodwill at balance date, and have determined that the net book valued at 30 June 2010 is recoverable. Further details are included in note 10.

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) **Fair Value Measurement**

The fair value of financial assets and liabilities must be estimated for recognition and disclosure purposes. As of 1 July 2009 the Group has adopted the amendments to AASB 7: *Financial Instruments - Disclosures* which requires disclosures of fair value measurements by level of the following fair value measurement hierarchy:

- a) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b) Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c) Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The Australian Accounting Standards Board (AASB) has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. These standards and interpretations are not expected to have a material impact on the Group.



## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 2: REVENUE AND OTHER INCOME

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>Sales Revenue</b>		
Sale of goods	73,907	102,633
Services revenue	5,040	4,682
	78,947	107,315
<b>Other Revenue</b>		
Revenue from legal case settlement	1,595	-
Interest received – other entities	23	48
Interest received – related parties	156	-
Dividend from unrelated parties	8	-
Other revenue	471	295
	2,253	343
Total Revenue	81,200	107,658

#### NOTE 3: PROFIT (LOSS) FOR THE YEAR

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>Expenses</b>		
Finance costs		
- External	1,347	1,094
- Related parties (Directors and directors of controlled entities)	215	536
Total finance costs	1,562	1,630
Foreign currency losses (gains)	357	(1,011)

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 4: INCOME TAX EXPENSE (CREDIT)

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
(a) The components of income tax expense are:		
- Current tax	3,349	8,349
- Deferred tax	1,234	1,782
- Over (under) provision for income tax in prior years	-	5
- Deferred Tax Assets/Liabilities not previously recognised (now recognised)	(4)	-
	4,579	10,136
(b) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 30%	3,914	12,119
Add (deduct) tax effect of:		
- Non-allowable items	466	3
- Over (under)provision for income tax in prior years	-	5
- Share option expensed	2	14
- Deferred tax asset not recognised (now recognised)	(4)	31
- Investment allowance	(3)	(24)
- Fully franked dividend	(2)	-
- Withholding tax on exempt income	1,109	-
- Foreign losses not recognized (income not subject to tax)	175	(774)
- Difference in tax rate	(1,078)	(1,238)
Income tax expense	4,579	10,136

The applicable weighted average effective tax rates are as follows:

	35%	25%
--	-----	-----

(c) Other Comprehensive Income:

There is no income tax on the item in other comprehensive income.

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 5: INTERESTS OF KEY MANAGEMENT PERSONNEL

**(a) Names and positions held of consolidated entity key management personnel in office at any time during the financial year are:**

D.A. Townsend	Chairman and Non-executive director
P.G. Sidney	Managing Director
J. Walstab	Director and Company Secretary
B. Harrold	General Manager, Quantum Energy Technologies Pty Ltd (Australia, subsidiary) (Appointed 30 November 2009)
A. McDonald	Director, Insight Oceania Pty Ltd (subsidiary)
Y. You	Director, Quantum Energy (Suzhou) (subsidiary)
J. Hewlett	Director, Insight Oceania Pty Ltd (subsidiary)
R. McLean	Manager, International (Resigned 26 March 2010)
A. Fairfull	Manager, International (Appointed 24 May 2010)
S. Goulter	Sales Manager, Quantum Energy Technologies Pty Ltd (Australia, subsidiary) (Resigned 05 May 2010)

**(b) Key Management Personnel remuneration**

	Consolidated Group	
	2010	2009
	\$000	\$000
Short-term employee benefits	1,708	1,280
Post-employment benefits	145	114
Share-based payments	8	46
	1,861	1,440

**(c) Option holdings**

Details of options held by key management personnel

	Balance 1.7.09	Granted as Remuneration	Options Exercised	Expired	Balance 30.6.10	Total Vested and Exercisable 30.6.10	Total unexercis- able 30.6.10
	No.	No.	No.	No.	No.	No.	No.
<i>Specified executives</i>							
Y. You	2,000,000	-	-	-	2,000,000	666,667	1,333,333
R. McLean	1,500,000	-	-	(1,500,000)	-	-	-
S Goulter	1,000,000	-	-	(1,000,000)	-	-	-
	4,500,000	-	-	(2,500,000)	2,000,000	666,667	1,333,333

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 5: INTERESTS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

##### (d) Shareholdings

The numbers of shares in the Company held during the year by each director of the Company and other key management personnel of the Group, including their personally related parties, are set out below:

	<b>Balance 1.7.09 No.</b>	<b>Sold No.</b>	<b>Purchased No.</b>	<b>Balance 30.6.10 No.</b>
<i>Directors</i>				
D.A Townsend	759,991,417 *	-	-	759,991,417 *
P.G. Sidney	760,761,207**	-	-	760,761,207**
J.Walstab	86,643,434***	1,625,000	-	85,018,434***
<i>Specified Executives</i>				
A.McDonald	62,923,481	106,508	-	62,816,973
J. Hewlett	8,100,000	2,398,863	-	5,701,137
Y. You	8,000	-	-	8,000
M.Walstab	685,000	285,000	-	400,000
R. McLean	-	-	-	-
S.Goulter	144,000	144,000	-	-
A. Fairfull	-	-	-	-
B. Harrold	-	-	-	-

\* 759,031,867 held jointly with P Sidney, and 863,550 held jointly with P Sidney and J Walstab

\*\* 759,031,867 held jointly with D Townsend, and 863,550 held jointly with D Townsend and J Walstab

\*\*\* 863,550 held jointly with D Townsend and P Sidney.

#### NOTE 6: AUDITOR'S REMUNERATION

	<b>Consolidated Group</b>	
	<b>2010 \$000</b>	<b>2009 \$000</b>
Auditing and reviewing financial reports		
HLB Mann Judd (NSW Partnership)	240	197
Non-HLB Mann Judd (NSW Partnership) auditor for audit of subsidiary Company	7	6

## Quantum Energy Limited and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 7: EARNINGS PER SHARE

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>Cents per Share</b>	<b>Cents per Share</b>
Basic earnings per share	0.83	2.97
Diluted earnings per share	0.83	2.96
<b>(a) Reconciliation of earnings to profit or loss</b>		
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Net profit (loss)	8,469	30,261
Earnings used to calculate basic EPS	8,469	30,261
Earnings used to calculate diluted EPS	8,469	30,261
	<b>No.</b>	<b>No.</b>
<b>(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS</b>	<b>1,018,308,291</b>	<b>1,018,308,291</b>
<b>(c) Weighted average number of ordinary shares outstanding during the year used in calculating diluted EPS</b>	<b>1,020,173,819</b>	<b>1,022,308,291</b>

## Quantum Energy Limited and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 8: CASH AND CASH EQUIVALENTS

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Cash and Cash Equivalents	2,734	3,308
The effective interest rate on bank deposits at call 1.75% (2009: 1.5%)		
The above figures are reconciled to Cash at the end of the financial year as shown in the Statement of Cash Flows as follows:		
Balances as above	2,734	3,308
Bank overdraft (Note 18)	(2,045)	(1,900)
	689	1,408

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 9: TRADE AND OTHER RECEIVABLES

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>CURRENT</b>		
Trade receivables	16,157	34,193
Allowance for doubtful debts	( 528)	( 61)
Impairment on receivables	( 913)	-
Interest receivables on Director loans	138	-
	14,854	34,132
<b>NON-CURRENT</b>		
Trade receivables	356	-
	356	-
Trade receivables past due, not impaired		
61-90 days past due	1,270	3,875
91+ past due	2,262	7,416
	3,532	11,291

#### **Provision For Impairment of Receivables**

Current trade and term receivables are non-interest bearing and generally on 30-day terms. An allowance for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired.

Terms of trade with some customers include an agreement that the customers may settle the amounts due to the Group by assigning Renewable Energy Certificates ("RECs") to the Group at an agreed price. The impairment is due to the market value of the RECs at balance date being less than the agreed price.

#### **Credit Risk — Trade and Other Receivables**

The Group has no significant concentration of credit risk. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

On a geographical basis, the Group has significant credit risk exposures in Australia given the substantial operations in this country.

The Group has retention of title clauses over goods sold until payment is received.

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 10: INVENTORIES

	Note	Consolidated Group	
		2010 \$000	2009 \$000
At Cost			
Raw materials and stores		157	253
Work in progress		-	-
Finished goods		22,387	24,210
Renewable Energy Certificates	11	-	6,454
		22,544	30,917
Less: Provision for impairment		-	(70)
		22,544	30,847

#### NOTE 11: FINANCIAL ASSETS

		Consolidated Group	
		2010 \$000	2009 \$000
<b>Current</b>			
Financial assets at fair value through profit or loss:			
- Shares in listed companies		105	73
- Renewable Energy Certificates	(a)	26,739	-
		26,844	73

(a) Level 1 in fair value hierarchy (refer Note 1 (t)): The fair values of shares in listed companies and Renewable Energy Certificates are based on quoted market prices at the end of the reporting period.

During the year ended 30 June 2010, Directors decided to hold Renewable Energy Certificates, rather than sell them when acquired. Renewable Energy Certificates are therefore reclassified as financial assets from the date of the decision.



## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 12: CONTROLLED ENTITIES

<b>Name of entity</b>	<b>Country of Incorporation</b>	<b>Ownership Interest</b>	
		<b>2010</b>	<b>2009</b>
<b>Parent entity</b>			
Quantum Energy Limited	Australia		
<b>Controlled entity</b>			
Quantum Energy Technologies Pty Ltd	Australia	100%	100%
Quantum Energy Installations Pty Ltd	Australia	100%	100%
InSight Oceania Pty Ltd	Australia	100%	100%
Medishop Pty Ltd	Australia	100%	100%
Quantum Energy Technologies (Suzhou) Co Ltd	China	100%	100%

#### NOTE 13: PROPERTY, PLANT AND EQUIPMENT

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Land & Buildings at cost	231	231
Plant & Equipment at cost	4,769	3,998
Accumulated depreciation	(2,714)	(2,180)
	<b>2,286</b>	<b>2,049</b>
Movements in carrying amounts		
Opening Balance	2,049	766
Additions	916	1,590
Disposals/Writeoffs	(72)	(32)
Depreciation/amortisation expense	(607)	(275)
Closing balance	<b>2,286</b>	<b>2,049</b>

#### NOTE 14: DEFERRED TAX ASSETS

##### Consists of:

- Inventories	311	599
- Employee entitlements	440	304
- Borrowing & capital raising costs	14	24
- Lease liability	202	108
- Accruals and Provisions	1,186	712
- Other	(118)	20
- Impairment provisions	466	955
	<b>2,501</b>	<b>2,722</b>

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 15: INTANGIBLE ASSETS

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>Goodwill on acquisition:</b>		
Cost	83,146	83,146
Accumulated impairment losses	(71,191)	(71,191)
Net carrying amount	11,955	11,955
 <b>Movement:</b>		
Opening net book amount	11,955	11,955
Closing net book amount	11,955	11,955

#### Impairment Disclosures

Goodwill has been tested for impairment at 30 June 2010, which indicated that book values are equal to or less than the value in use.

Goodwill is allocated to cash-generating units which are based on the Group's reporting segments.

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Medical (InSight Oceania Pty Ltd)	11,811	11,811
Heat pump technologies	144	144
Total	11,955	11,955

The recoverable amount of each cash-generating unit is determined based on value-in-use calculations.

The value in use calculation for the goodwill on acquisition of InSight Oceania Pty Ltd is based on estimated maintainable Earnings Before Interest and Taxes ("EBIT"), discounted at 17.5% per annum.

#### *Sensitivity Analysis*

If the discount rate used was changed to 28% the recoverable amount of the InSight business acquired would approximately equal the carrying amount.

## Quantum Energy Limited and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 16: OTHER ASSETS

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>CURRENT</b>		
Prepayments	1,450	5,181
Travel advance to related party	6	-
Loans to related parties	894	-
Other current assets	72	898
	<b>2,422</b>	<b>6,079</b>
<b>NON-CURRENT</b>		
Security deposits	163	153
	<b>163</b>	<b>153</b>

### NOTE 17: TRADE AND OTHER PAYABLES

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>CURRENT</b>		
Unsecured liabilities:		
Trade payables	9,288	22,258
Employee benefits	1,798	1,275
Deferred income	2,155	2,366
Sundry payables and accrued expenses		
- Directors	867	1,838
- Directors of subsidiaries	34	88
- Other	1,768	2,264
	<b>15,910</b>	<b>30,089</b>

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 18: BORROWINGS

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>CURRENT</b>		
Unsecured liabilities:		
- Loans - Directors	-	917
Secured liabilities:		
- Lease liability	336	237
- Other parties - loans	12,776	1,808
- Other parties - overdraft	2,045	1,900
	15,157	4,862
<b>NON-CURRENT</b>		
Unsecured liabilities:		
- Loans - Directors	1,160	2,109
- Loans - Directors of subsidiaries	17	857
- Other parties	1	780
Secured liabilities:		
- Other parties - loans	6,198	7,650
- Lease liability	900	839
	8,276	12,235

The secured borrowings - other parties are secured by fixed and floating charges over the assets of the parent entity and certain subsidiaries and negative pledge conditions, which were complied with at balance date.

The lease liabilities are secured over the assets to which the leases relate.

Loans from Directors and Directors of subsidiaries are repayable at the discretion of the Company.

Loans from Directors and Directors of subsidiaries are subject to interest at a rate of 10% per year.

#### NOTE 19: INCOME TAX

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>CURRENT</b>		
Income tax payable	2,008	7,728

## Quantum Energy Limited and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 20: SHORT TERM PROVISIONS

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>CURRENT</b>		
Warranty	1,535	1,561

### NOTE 21: ISSUED CAPITAL

	<b>Consolidated Group</b>			
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>No.</b>	<b>No.</b>	<b>\$</b>	<b>\$</b>
Fully paid ordinary shares	1,018,308,291	1,018,308,291	83,789	83,789
<b>Movements:</b>				
At the beginning of the year	1,018,308,291	1,018,308,291	83,789	83,789
At the end of the year	1,018,308,291	1,018,308,291	83,789	83,789

#### **Capital Management**

Management controls the capital of the Group in order to meet debt covenants, provide shareholders with adequate returns and ensure the Group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary share capital and financial liabilities supported by financial assets.

The Company has a debt covenant prescribed by its bank, Westpac Banking Corporation. Refer Note 18.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in risks and in the market. These responses include the management of debt levels and share issues. There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 22: RESERVES

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>Reserves</b>		
Option Reserve	143	136
Undistributable Profits Reserve	504	504
Exchange Translation Reserve	(9)	(490)
	<u>638</u>	<u>150</u>

#### *Option Reserve*

The option reserve records items recognised as expenses in relation to employee share options.

#### *Undistributable Profits Reserve*

The undistributable profits reserve records profits earned by Quantum Energy Technologies (Suzhou) Co Ltd that are required to be retained by that Company and cannot be distributed as dividends to Quantum Energy Limited. The reserve is currently at its maximum required amount.

#### *Exchange Translation Reserve*

The exchange translation reserve records the exchange differences arising on translation of the financial statements of overseas subsidiaries to Australian dollars.

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 23: LEASING COMMITMENTS

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>Finance lease commitments</b>		
Minimum lease payments payable within		
- 1 year	421	312
- between 1 year and five years	977	929
	1,398	1,241
Less: Future finance charges	(162)	(165)
	1,236	1,076
<b>Disclosed as:</b>		
Current liability (Note 18)	336	237
Non-current liability (Note 18)	900	839
	1,236	1,076
<b>Operating lease commitments</b>		
Non-cancellable operating leases contracted but not apitalized in the financial statements		
- Payable within one year	1,599	1,245
- Payable later than 1 year and not later than 5 years.	1,679	2,333
	3,278	3,578

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 24: SEGMENT REPORTING

	Heat Pump Technologies		Medical		Unallocated		Elimination		Consolidated	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Total revenue	58,252	91,047	22,948	16,611	-	-	-	-	81,200	107,658
Profit/(loss) from ordinary activities	7,388	30,729	2,527	1,937	262	13,337	(1,708)	(15,742)	8,469	30,261
Segment assets	62,403	72,530	30,490	22,832	25,639	34,195	(31,873)	(38,239)	86,659	91,318
Income tax expenses	(2,445)	(10,613)	(1,380)	(830)	675	2,461	(1,429)	(1,154)	(4,579)	(10,136)
Segment liabilities	(36,409)	(52,694)	(16,391)	(13,755)	(10,361)	(16,694)	19,951	26,317	(43,210)	(56,826)
Depreciation	486	195	43	37	-	-	-	-	529	232
Acquisition of Property, plant & equipment	887	1,512	29	78	-	-	-	-	916	1,590
Impairment loss recognised in profit or loss	(1,357)	(2)	(2)	16	-	-	-	-	(1,359)	14
Fair value profit/(loss) on financial assets	(2,283)	-	-	-	-	-	-	-	(2,283)	-

#### Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles, other financial assets and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings.

#### Business Segments

The entity operates in two business segments, being the manufacturing and distribution of energy saving heat pump technology, hot water and heat/cooling systems, and the distribution of high-end medical products.

#### Geographical Segments

The consolidated Group predominately operates in two geographical segments with manufacturing operations in China and distribution in Australia.

#### Intersegment Transfers

There were no intersegment transfers.



## Quantum Energy Limited and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 25: CASH FLOW INFORMATION

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax</b>		
Operating profit (loss) after income tax	8,469	30,261
Receivables settled by receipt of Renewable Energy Certificates	(50,124)	-
Non-cash items in profit (loss)		
- Depreciation	607	289
- Foreign currency losses/(gains)	481	( 593)
- Loss on sale of assets/investments	503	18
- Change in fair value of financial assets	2,282	-
- Provision for long service leave	45	-
- Impairment of receivables	-	( 12)
- Share options expenses	(7)	46
- Impairment of inventories	-	(1)
<b>(Increase)/Decrease in:</b>		
- Trade debtors & other receivables	23,564	(36,273)
- Inventories	1,850	(19,464)
<b>Increase/(Decrease) in:</b>		
- Trade creditors & accruals	(6,947)	18,985
- Provision for warranty	(26)	1,163
- Income tax	(5,598)	9,630
- Fair value adjustment	-	(23)
Cash flows from (used in) operations	(24,901)	4,026

## Quantum Energy Limited and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 25: CASH FLOW INFORMATION (CONTINUED)

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>(b) Credit Standby Arrangements with Banks</b>		
Credit facility*	3,000	3,000
Amount utilised	( 2,045)	( 1,900)
Amount available	955	1,100

\* A bank overdraft facility has been arranged with the Westpac Banking Corporation with the general terms and conditions being set and agreed to annually.

### **(c) Loan Facilities**

Loan facilities	19,756	10,800
Amount utilised	( 19,756)	(10,800)
Amount available	-	-

The loan facility has been provided by Westpac Banking Corporation with security being a floating charge over the assets of the Company and certain subsidiary companies together with a requirement for the ratio of EBIT to interest expense to be a minimum of 3, calculated as:

#### Earnings before Interest and Tax

Gross Interest

For the years ended 30 June 2009 and 30 June 2010, requirements of a minimum capital adequacy ratio of 25% also applied, calculated as:

#### Tangible Net Worth (excl. Intangibles/Goodwill) + Shareholders Loans

Total Tangible Assets (excl. Intangibles/Goodwill)

The Group complied with both above covenant requirements for the two years ended 30 June 2009 and 30 June 2010.

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 26: OPTIONS

On 18 September 2006 4,000,000 options were granted to employees to subscribe for ordinary shares at an exercise price of \$0.10 each. The options vest and are exercisable in equal tranches on 1 September 2009, 1 September 2010 and 1 July 2011. The options expire on 31 August 2011.

On 22 February 2008 3,500,000 options were granted to 2 executives to subscribe for ordinary shares at an exercise price of \$0.15 each. The options vest and are exercisable in equal tranches on 01 December 2009, 01 December 2010 and 01 December 2011. In October 2008 2,000,000 options expired on the resignation of Michael Walstab. In March 2010, the remaining 1,500,000 options expired on the resignation of Robert McLean.

On 21 July 2008 1,000,000 options were granted to 1 executive to subscribe for ordinary shares at an exercise price of \$0.15 each. The options vest and are exercisable in equal tranches on 25 July 2009, 25 July 2010 and 25 July 2011. The options expired on resignation of Scott Goulter in May 2010.

All options granted are over ordinary shares in Quantum Energy Limited, which confer a right of one ordinary share for every option held.

	Consolidated Group and Parent	
	2010	2009
	No. Options	No. Options
Outstanding at the beginning of the year	6,500,000	7,500,000
Granted - expiry date 25 July 2013	-	1,000,000
Expired	(2,500,000)	(2,000,000)
Outstanding at year-end	4,000,000	6,500,000
Exercisable at year end	666,667	-

The options outstanding at 30 June 2010 have a weighted average exercise price of \$0.10 (2009 - \$0.12) and a weighted average remaining contractual life of 1.17 years (2009: 2.75 years)

Further details of these options are provided in the Report of the Directors. The options lapse when the holder ceases employment with the Group.

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 27: RELATED PARTY DISCLOSURES

**(a) Equity interests in related parties**

**Equity interests in controlled entities**

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 12 to the financial statements.

**(b) Key management personnel**

Details of directors' remuneration are disclosed in the Remuneration Report in the Directors' Report, and in Note 5.

**(c) Directors' equity holdings**

Details of directors' and key management's personal equity holdings are disclosed in Note 5.

**(d) Other transactions with directors and director related entities**

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Payment for accountancy services to Hall Chadwick Chartered Accountants of which Drew Townsend is a Partner	101	126
Payment for brokerage to Navigator in which Hall Chadwick has a 50% interest and in which Company Drew Townsend is beneficially a shareholder	11	12
Accrued interest payable/(receivable) on loans from/(to) directors and director related parties at 10% per annum		
- Phillip Sidney	(114)	972
- Drew Townsend	(24)	74
- John Walstab	867	719
- Andrew McDonald	1	65
- James Hewlett	33	22
Unsecured loans from/(to) directors and related parties		
- Phillip Sidney	(656)	917
- Drew Townsend	(238)	-
- John Walstab	1,160	2,109
Unsecured loans from directors of subsidiary companies		
- Andrew McDonald	15	645
- Jim Hewlett	2	212
Rental income received on property leased to Quantum Group by the directors	578	450
Interest expense/(income) on loans from/(to) Directors		
- Phillip Sidney	(130)	145
- Drew Townsend	(25)	22
- John Walstab	149	227
- Andrew McDonald	32	80
- James Hewlett	11	22
Travel & other advance		
- John Walstab	6	-
- Andrew McDonald	50	-

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 28: FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks:

- 1) Market risk – including:
  - i. Currency risk
  - ii. Interest rate risk
  - iii. Price risk
- 2) Credit risk, and
- 3) Liquidity risk

#### 1 (i). Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

The Group does not hedge and therefore is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the Group's functional currency. The Group monitors movements in exchange rates.

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations, denominated in currencies other than the functional currency of the operations.

	<b>Converted to Australian dollars</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>Receivables:</b>		
China RMB	155	2,118
Euro	14	-
New Zealand dollars	398	64
Total amounts receivable in foreign currencies	567	2,182
<b>Payables:</b>		
China RMB	314	7,031
Euro	96	-
US dollars	93	109
New Zealand dollars	17	-
Total amounts payable in foreign currencies	520	7,140

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 28: FINANCIAL RISK MANAGEMENT

##### 1 (ii). Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments. Interest rate risk is managed using a mix of fixed and floating rate debt as detailed below.

	Weighted Average Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing				Non-interest Bearing			
					Less than 1 Year		1 to 5 years		Total			
	%		\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Consolidated	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Financial assets:												
Cash	1.75%	1.5%	2,734	3,308	-	-	-	-	-	-	2,734	3,308
Trade & Other Receivables			-	-	-	-	-	-	15,210	34,132	15,210	34,132
Renewable Energy Certificates									26,739	6,454	26,739	6,454
Shares in listed companies									105	73	105	73
Other			-	-	894	-	-	-	163	153	1,057	153
<b>Total financial assets</b>			<b>2,734</b>	<b>3,308</b>	<b>894</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42,217</b>	<b>40,812</b>	<b>45,845</b>	<b>44,120</b>
Financial liabilities:												
Bank loans	5%	6.5%	12,956	3,450	-	-	6,000	6,000	18	-	18,974	9,450
Bank overdraft	10.96%	17.1%	2,045	1,900	-	-	-	-	-	-	2,045	1,900
Lease liability	7.65%	6.7%	-	-	336	237	900	839	-	-	1,236	1,076
Loans unsecured	10.0%	12.0%	-	-	-	917	1,178	3,746	-	-	1,178	4,663
Trade and other creditors			-	-	-	-	-	-	15,910	26,448	15,910	26,448
<b>Total financial liabilities</b>			<b>15,001</b>	<b>5,350</b>	<b>336</b>	<b>1,154</b>	<b>8,078</b>	<b>10,585</b>	<b>15,928</b>	<b>26,448</b>	<b>39,343</b>	<b>43,537</b>

##### 1 (iii). Price risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

The Group is exposed to movement in the market values of Renewable Energy Certificates ("RECs").

The Group is also exposed to securities price risk on changes in the price of forward contracts of Renewable Energy Certificates.

The value of forward contracts held by the Group at balance date was \$ 23.4 million (excluding GST).

##### 2. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counter parties of contract obligations that could lead to a financial loss to the Group. The consolidated Group does not have any material credit risk exposure to any single receivable or Group of receivables under financial instruments entered into by the consolidated Group.

Credit risk is managed through the maintenance of 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 counter parties, ensuring to the extent possible, that customers and counter parties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Within the Group, credit terms are generally 30 to 60 days from the invoice date.

## Quantum Energy Limited and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 28: FINANCIAL RISK MANAGEMENT (CONTINUED)

### Credit risk (continued)

Risk is also minimised through investing any surplus funds in financial institutions that maintain a high credit rating.

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets as presented in the balance sheet.

Risk is also minimised through investing any surplus funds in financial institutions that maintain a high credit rating.

### 3. Liquidity risk

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

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities
- monitoring undrawn credit facilities
- maintaining a reputable credit profile
- managing credit risk related to financial assets

#### *Financial liability maturity analysis*

	Within 1 month		After 1 month, within 1 year		1 to 5 Years		Total	
	\$000		\$000		\$000		\$000	
<b>Consolidated</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Financial liabilities:								
Bank loans	1,820	-	10,956	1,800	6,198	7,650	18,974	9,450
Bank overdraft	-	-	2,045	1,900	-	-	2,045	1,900
Lease liability	20	20	316	217	900	839	1,236	1,076
Loans unsecured	-	-	-	917	1,178	3,746	1,178	4,663
Trade and other creditors	3,662	12,491	12,248	13,957	-	-	15,910	26,448
<b>Total financial liabilities</b>	<b>5,502</b>	<b>12,511</b>	<b>25,565</b>	<b>18,791</b>	<b>8,276</b>	<b>12,235</b>	<b>39,343</b>	<b>43,537</b>

## Quantum Energy Limited and Controlled Entities

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 29: PARENT ENTITY INFORMATION

	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Current assets	206	78
Total assets	25,146	33,729
Current liabilities	5,517	12,330
Total liabilities	19,137	26,143
Shareholders equity:		
Issued capital	83,789	83,789
Option reserve	143	136
Retained earnings	(77,922)	(76,339)
	6,010	7,586
Profit (loss) for the year	(1,583)	13,337
Other comprehensive income	-	-
Total comprehensive income	(1,583)	13,337

#### NOTE 30: ECONOMIC DEPENDENCY

A significant portion of the business is dependent of the continuation of government assistances to consumers in relation to energy efficient hot water systems.

#### NOTE 31: COMPANY DETAILS

The registered office of the Company and the principal place of business is:  
 Quantum Energy Limited  
 56-60 Bourke Road, Alexandria, NSW 2015



## Quantum Energy Limited and Controlled Entities

### STOCK EXCHANGE INFORMATION

**(a) Distribution of Shareholders as at 20 August 2010**

Category (size of holding)	Number of Holders
1 – 1,000	67
1,001 – 5,000	311
5,001 – 10,000	357
10,001 – 100,000	670
100,001 – and over	155
	1560

**(b)** The number of shareholdings held in less than marketable parcels is 60.

**(c)** The names of the substantial shareholders listed in the holding Company's register as at 20 August 2010 are as follows. This also reflects the directors relevant stock interests:

Directors	Shares	Options
D.A. Townsend	759,991,417 *	0
P.G. Sidney	760,761,207 **	0
J. Walstab	85,018,434 ***	0
<b>Ordinary shareholder</b>	<b>Relevant interest notified</b>	
Crisp Holdings Ltd	753,736,667 ordinary shares	

\* 759,031,867 held jointly with P Sidney and 863,550 held jointly with P Sidney and J Walstab

\*\* 759,031,867 held jointly with D Townsend and 863,550 held jointly with D Townsend and J Walstab

\*\*\* 863,550 held jointly with D Townsend and P Sidney and 863,550 held jointly with P Sidney

**(d) Unquoted equity securities**

	Number on Issue
Options issued to employees	4,000,000

**(e) Voting Rights**

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

## Quantum Energy Limited and Controlled Entities

### STOCK EXCHANGE INFORMATION (CONTINUED)

#### (f) 20 Largest Shareholders — Ordinary Shares as at 20 August 2010

Holder Name	Shares Held	% Holding
Crisp Holdings Ltd	753,736,667	74.02%
Mr John Walstab	81,488,418	8.00%
Mr Andrew McDonald	50,856,000	4.99%
Mr Andrew McDonald & Mrs Sandra McDonald	11,129,400	1.09%
Ramn Pty Ltd	9,266,444	0.91%
Mr Barry Raymond Nelson & Mr Brad Andrew Nelson	8,500,000	0.83%
Mr Yu Jie	8,000,000	0.79%
Chicago Limited	5,295,200	0.52%
Mr James Hewlett	4,101,137	0.40%
Thyatira Pty Ltd	4,000,000	0.39%
Mr John Walstab	2,654,166	0.26%
Brighten Investments Ltd	2,600,000	0.26%
Patlin Securities Pty Limited	2,500,000	0.25%
Milrix Pty Ltd	1,900,000	0.19%
Bh Super Pty Ltd	1,800,100	0.18%
Ms Sze Man Chan	1,741,900	0.17%
Mr James Hewlett	1,600,000	0.16%
Nighdoc Pty Ltd	1,083,333	0.11%
Torrent Pty Ltd	987,566	0.10%
Karavax Pty Ltd	918,082	0.09%
	<hr/>	
	954,158,413	93.71%

#### (g) Restricted shares – Fully paid ordinary shares held under escrow

43,514,000 fully paid ordinary shares held under escrow were released on 19 August 2010. No other restricted shares are held.

#### (h) On-market buy-backs

There is no on-market buy-backs currently on place in relation to the securities of the Company.

#### (i) Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited.

#### MATERIAL DIFFERENCE TO APPENDIX 4E

There are no material differences to the financial statements set out in this report when compared to the information set out in the Company's Appendix 4E preliminary final statement released to the ASX on 31 August 2010.