



Financial Report
For the 12 months Year Ended 30 June 2010

INTERNATIONAL INNOVATIONS LTD

DIRECTORS' REPORT

Your directors present this report on the company for the year ended 30 June 2010.

Directors

The names of each person who has been a director at any time during the year and up to the date of this report are:

STEPHEN MICHAEL HARGREAVES – Executive Chairman and CEO

Appointed as a director since incorporation of the company on 12 November 2003 and appointed as secretary on 28 February 2004.

DR MATTHEW BOLTON – Non-Executive Director

Appointed as a director on 7 June 2007.

DR STEPHEN PILDITCH – Non-Executive Director

Appointed as a director on 7 June 2007.

ROBERT HUSHER – Non-Executive Director

Appointed as a director on 7 June 2007, resigned 25 January 2010.

DAVID FRANCIS DIAMOND – Non-Executive Director

Appointed as director 3 June 2010, resigned 25 June 2010.

Appointed as company secretary 25 June 2010.

INTERNATIONAL INNOVATIONS LTD

DIRECTORS' REPORT (CONT'D)

Directors' Meetings

During the year the directors communicated by email, telephone and skype. No collective directors' meetings were held as some of the directors reside in Europe. The Chairman / CEO Mr Hargreaves met face to face with each director over the year on business matters to progress the company as needed.

Director	Meetings Held while a Director	Meetings Attended
Stephen Michael Hargreaves	1	1
Dr Matthew Bolton	1	1
Dr Stephen Pilditch	1	1
Robert Husher (resigned 25 Jan 2010)	-	-
David Francis Diamond	-	-

(appointed 3 June 2010, resigned 25 June 2010, appointed 25 June 2010 as Company Secretary)

Operating Result

The loss of the group for the year after providing for income tax amounted to \$712,639 (18 months to 30 June 2009: net loss of \$4,483,484).

Principal Activities

Calculations at Newcastle University (Aust) for OTELLO & at Imperial College London (ICL) MOREAMPS thermal hydraulic generators. ICL has delivered their proposal to build a MOREAMPS demonstrator. Converting WASTE HEAT ENERGY into CLEAN ELECTRICAL ENERGY is our main principal activity. Waste Heat Energy is bigger than ALL renewable energies combined, see USA data click here: www.internationalinnovations.com.au/documents/consumption_chart_090728b.jpg (or if receiving this in hard copy refer to IIL website and see the link on MOREAMPS home page titled "Renewable Energy").

IIL is owner of six products / patents granted and pending applications across various countries are AMPS, EUROAMPS, OTELLO, MOREAMPS heat engines & QISS Clutch and 63.78% owner of www.selectdesign.com.au (SDTL) SMARTMATIC transmission.

On the 2 June 2010 our patent attorney informed us that our MOREAMPS patent is allowed for granting in all countries in Europe and will be granted with payment of fees before 1 October 2010. This is perfect timing & very good news! MOREAMPS is constructed from "off the shelf parts" from international suppliers .i.e. www.hydac.com and www.honeywell.com.

- ✓ IIL successfully engaged and paid in full, The Newcastle University for calculations on OTELLO 1 Mega Watt thermal hydraulic generator. The final report was received 27 May 2010 and can be seen in IIL website downloads, or click here: www.internationalinnovations.com.au
- ✓ QISS Electric Launch Clutch we are told by www.ghm-engineering.at is the world's first electric launch clutch for controlling "flat or cone" clutch plates. Patents granted in China, Germany, France, Italy, United Kingdom and pending in other countries around the world.
- ✓ Patents: You can see our complete list of patents on the IIL website under "Patents & Products" or click on this website link: www.internationalinnovations.com.au/images/IIL_SDTL_patents_list_12_Nov_2009_v3.pdf
- ✓ Our focus today is to produce a disclosure document for our 648 shareholders to consider additional shares to strengthen their ownership in IIL. and pay all liabilities on IIL balance sheet before the building MOREAMPS demonstrator in Europe.

INTERNATIONAL INNOVATIONS LTD

DIRECTORS' REPORT (CONT'D)

Review of Operations

The directors plan to lodge an Offer Information Statement (OIS) with the Australian Securities Investment Commission (ASIC) in July 2010. The OIS is intended to be distributed to IIL 648 shareholders. Also to all 159 shareholders in Select Design Technologies Limited (SDTL) www.selectdesign.com.au of which IIL is 63.78% owner, then the public!

IIL is at an important point in time since IIL has been ***informed on 2 June 2010 our patent covering all 32 European countries is allowed for our MOREAMPS thermal hydraulic generator, and will be granted with payment of fees for each country before 1 October 2010 they will then be granted***

The directors are of the opinion that the best place to build MOREAMPS demonstrator, optimise and commercialise is in Europe. We have received proposals to build MOREAMPS at Imperial College London (ICL) headed by Dr Markides. A proposal to build a QISS clutch demonstrator has also been received from Franz Jegel owner of www.ghm-engineering.at (GHM-E). However, ***first target is to build the MOREAMPS demonstrator at ICL is our number one priority since renewable energy is attractive, especially in Europe.***

Because of the high costs of electricity in European countries and the attractive tariffs paid for renewable energy in Europe we have interest from Dr Markides to further assist scaling up MOREAMPS. And supporting engineering including Franz Jegel / GHM-E interest to manufacture MOREAMPS when ready and supply European customers. The BIOGAS market is our first target, we have received interest from the German biogas company www.mwk-biogas.com when MOREAMPS is ready they would consider offering to their customers when our product is market ready and the terms and conditions are accepted.

The technical feasibility of MOREAMPS & OTELLO has now been confirmed by Australian Newcastle University & Dr Markides / Imperial College London (ICL). The plan is to build a demonstrator using www.hydac.com and www.honeywell.com parts and technical support. Director Stephen M. Hargreaves intends to move his family to live in Europe to be closer to the MOREAMPS project and progress the commercialisation process in European countries. IIL has received a lot of interest in MOREAMPS, and to be closer to Dr Markides, Hydac and Honeywell is now necessary. Also he intends to conduct road shows and information / presentations to the Market Makers for the Frankfurt stock exchange as it is our intention to list on the Australian (ASX) & Frankfurt (FTSE) stock exchange since the FTSE is the third largest stock exchange in the world. And Europe is advanced with financial incentives for renewable energies.

To achieve all mentioned above, IIL must now strengthen its balance sheet and pay liabilities.

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the company during the year were as follows:

Fully paid ordinary share capital increased during the year as follows:

	\$
- Issued 16,100,000 shares to raise working capital – (Note 13)	161,000
- Issued 2,410,748 shares to acquire a further 0.59% interest in Select Design Technologies Limited	24,107
- Share issue costs	(11,414)
	173,693
	173,693

INTERNATIONAL INNOVATIONS LTD

DIRECTORS' REPORT (CONT'D)

After Balance Date Events

There have been no significant after balance date events.

Future Developments

The likely developments in the operations of the company and the expected results of those operations in future financial years are:

- Payout all liabilities,
- MOREAMPS European patent allowed 2 June 2010, now requires payment by 1 October 2010 to validate for granting. Application valid for Austria, Belgium, Bulgaria, Switzerland, Cypress, Czech Republic, Germany, Denmark, Estonia, Spain, Finland, France, United Kingdom, Greece, Hungary, Ireland, Island, Italy, Liechtenstein, Lithuania, Luxemburg, Latvia, Monaco, Netherlands, Poland, Portugal, Rumania, Sweden, Slovenia, Slovakia and Turkey.
- Building of MOREAMPS demonstrator by Dr Christos Markides at Imperial College London (ICL) using components and technical support from www.hydac.com and www.honeywell.com, Target is to connect MOREAMPS to the waste heat energy from Biogas Plants Engine Exhaust and other heat sources including SOLAR.
- Preparation towards listing on the Australian & Frankfurt Stock Exchanges.
- MARKETING of licenses in all countries around the world for construction, sales and servicing MOREAMPS using components from www.hydac.com and www.honeywell.com
- Building of QISS Electric Clutch at www.ghm-engineering.at

Dividends

No dividends were declared or paid since the start of the year. No recommendation for payment of dividends has been made.

Options

No options over issued shares or interests in the company were granted during or since the end of the year and there were no options outstanding at the date of this report.

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DIRECTORS' REPORT (CONT'D)

Directors' Interests in Shares of the Company or Related Bodies Corporate

The particulars of shares held by the directors of the company in the company or in related bodies corporate which are required to be declared in the register of directors' shareholdings are as follows:

STEPHEN MICHAEL HARGREAVES

Executive Chairman / CEO



Stephen is the founder and experience includes the successful establishment of several companies, capital raising, and the management of public companies for the commercialisation of inventions. In 1996 he was using the services of the world's largest automotive research development laboratory known as AVL List GmbH in Graz, Austria for the research and development of automotive products. At AVL, Steve was introduced to Mr Bernd Pfeifer, the then Deputy Vice President of Engineering, Sales and Marketing of AVL. Mr Pfeifer was later to become a joint founding director of International Innovations Limited.

Stemming from this relationship built over the years at AVL with Mr Pfeifer, Steve conceived the idea of creating a public company for global commercialisation and marketing of innovations, to provide benefits to investors from the automotive and other related industries. Steve invited Mr Bernd Pfeifer to join this venture and with an expert team selected by Mr Pfeifer from his contacts in industry, amassed over a period of 30 years, IIL was established and included AVL's patent attorney and other expertise which has progress IIL to is now a reality. Stephen is also founder and CEO of Select Design Technologies Limited (SDTL) www.selectdesign.com.au.

Steve is responsible for the day to day business activities of IIL.

Interest in Shares – 240,190,654.

DAVID FRANCIS DIAMOND

Company Secretary



Bachelor of Business Studies, Trinity College Dublin, Ireland 1971
Chartered Accountant (Australia 1975)

Mr Diamond has a background in accountancy and financial management, having spent 30 years in professional practices in Australia and Europe.

His emphasis is on management of businesses undergoing growth and structural change. In these roles he has represented banking institutions and investors in achieving the optimal outcomes for these companies involved. These activities have been initially involved in the private arena, but over the last 10 years his emphasis has been in public companies, including companies listed on the Australian Stock Exchange. He has acted in these roles as advisor, director and chairman depending on the various requirements. His emphasis is in financial and board management, and specifically in determination of strategic direction and implementation of change.

Mr Diamond is Chairman / Director of Select Design Technologies Limited (SDTL). In 2009 IIL became 63.19% shareholder of SDTL and has increased this to 63.78% in the current period.

Interest in Shares – 32,000,000.

INTERNATIONAL INNOVATIONS LTD

DIRECTORS' REPORT (CONT'D)

DR MATTHEW BOLTON

Non-Executive Engineering and Scientific Technical Director



Ph.D. Applied Mathematics, UEA, 2009 Dissertation: "Acoustic Scattering in Colloids"
M.Sc. Applied Mathematics, University of British Columbia, 2002 Thesis "A Model of the Heat Transfer and Gas Flow Associated with the Annealing Process of Silicon Wafers"
MMath Applied Mathematics (Graduated with First Class Honours), UEA, 1998 Thesis: "The Fluid Dynamics of Stone Skipping".

A Levels in Mathematics (A), Physics (A), Computer Science (A), Sir Thomas Rich's School, 1994.

Mathew is jointly responsible for the establishment of our UK based laboratory for the optimisation of our waste heat engine family (AMPS, EUROAMPS & MOREAMPS). Working with our development partners, they aim to make super-efficient combustion engines a reality. Currently the technology is primarily targeted at large engines such as generators, but it is hoped that the devices can be scaled down for use in the automotive industry.

Matthew has gained valuable experience in mathematical modelling such as fluid modelling and heat transfer. He has experience using commercial fluid solvers such as FLUENT and COMSOL and has also built up a library of his own C++ codes. He obtained excellent training during his time at British Aerospace where he worked as a C++ Programmer on defence contracts.

Matthew has developed good contacts with the academic world and is looking into the possibility of collaboration with a university to further understand the thermodynamics, and improve the designs of the waste heat engine family.

Interest in Shares – Nil.

DR STEPHEN PILDITCH

Non-Executive Engineering and Scientific Technical Director



Ph.D. Chemical Engineering, Newcastle University, 2010 Dissertation: "Computational Mathematical Modelling of a High Temperature Fuel Cell" MMath Applied Mathematics, UEA, 1998 Thesis: "Supersonic Flow and Shocks" Mathematics Exchange Program, University of British Columbia, Canada 1997.

Stephen has gained valuable experience of the business world as well as being an accomplished academic. In the course of writing his Ph.D. thesis, he has contributed three research publications in the field of fuel cell modelling. Fuel cells are an exciting source of alternative energy and are expected to become more prevalent due to their efficient energy conversion, and their lack of environmentally damaging emissions. Sources of clean energy are of great interest to Stephen, and because of his academic background and creative thinking he is a strong asset to the team developing the waste heat engine family (AMPS, EUROAMPS & MOREAMPS).

Currently, Stephen also works for Carbon Planet Pty Ltd (www.carbonplanet.com) as an emissions auditor. Carbon Planet is an Australian company that offers tailored carbon emissions audits, emissions reduction strategies and carbon credits brokerage services. With the advent of recent government reforms and carbon emissions legislation, more and more companies are having to review their carbon footprints and in doing this, perhaps some may realise the potential of our waste heat devices.

Stephen has also worked for four years in risk management and auditing at Deloitte and Ernst & Young. This involved consulting for the major oil companies, the banking sector, and the British government and gave him valuable insight into the corporate governance of large companies and organisations. A risk and control methodology approach was employed in order to analyse corporate systems. Risk analysis is of growing importance to the well being of society and IIL waste heat devices can help to mitigate some of the risks faced by the energy generation sector today.

Interest in Shares – Nil.

INTERNATIONAL INNOVATIONS LTD

DIRECTORS' REPORT (CONT'D)

Environmental Issues

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Indemnifying Officer or Auditor

No indemnities have been given or agreed to be given or insurance premiums paid or agreed to be paid, during or since the end of the year, to any person who is or has been an officer or auditor of the company.

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.

Auditor's Independence Declaration

The lead auditor's independence declaration, as required under section 307C of the Corporations Act 2001, forms part of the Directors' Report for the year ended 30 June 2010.

Signed in accordance with a resolution of the Board of Directors:



STEPHEN MICHAEL HARGREAVES
Executive Director and Chairman

Dated 23 July 2010

AUDITOR'S INDEPENDENCE DECLARATION

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

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of International Innovations Limited and the entities it controlled during the year.



R A Dean
Partner
PKF

23 July 2010
Melbourne

2010 AUDITED 30 JUNE 2010 FINANCIAL ACCOUNTS - IIL FINAL

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Liability limited by a scheme approved under Professional Standards Legislation.

INTERNATIONAL INNOVATIONS LTD
DIRECTORS' DECLARATION

The directors of the company declare that:

- (a) In the director's opinion the financial statements and notes are 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.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2; and
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable for the reasons stated in Note 2, Summary of Significant Accounting Policies.

This declaration is made in accordance with a resolution of the Board of Directors.



STEPHEN MICHAEL HARGREAVES
Executive Director and Chairman



Dated 23 July 2010

INTERNATIONAL INNOVATIONS LTD
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Group 30 June 2010 \$	Consolidated Group 18 months to 30 June 2009 \$
Revenue	4	17,182	-
Expenses			
Administration expenses		193,335	517,368
Depreciation expense		3,750	8,936
Directors' remuneration	16	335,500	560,217
Impairment of goodwill		-	2,797,908
Interest expense		116,976	150,437
Legal fees		5,534	-
Long service leave expense		5,000	26,635
Occupancy expenses		22,372	52,831
Patent expenses		27,873	219,980
Travel, accommodation and conference expenses		19,481	290,183
(Loss) before income tax		(712,639)	(4,624,495)
Income tax (expense) / refund	3(c)	-	141,011
(Loss) for the period		(712,639)	(4,483,484)
Other comprehensive income		-	-
Total comprehensive income		(712,639)	(4,483,484)
Loss for the period attributable to:			
- non-controlling interests	18	(8,596)	-
- members of the parent entity		(704,043)	(4,483,484)
		(712,639)	(4,483,484)
Total comprehensive income for the period attributable to:			
- non-controlling interests		(8,596)	-
- members of the parent entity		(704,043)	(4,483,484)
		(712,639)	(4,483,484)

The above Statement of Comprehensive Income is to be read in conjunction with the attached notes.

INTERNATIONAL INNOVATIONS LTD

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	Note	Consolidated Group 30 June 2010 \$	Consolidated Group 30 June 2009 \$
ASSETS			
Current Assets			
Cash and cash equivalents	5	4,233	100
Trade and other receivables	6	13,936	412,985
Other current assets	7	13,915	-
Total Current Assets		32,084	413,085
Non Current Assets			
Plant and equipment	8	6,659	10,409
Intangibles	9	-	-
Total Non Current Assets		6,659	10,409
TOTAL ASSETS		38,743	423,494
LIABILITIES			
Current Liabilities			
Financial liability	10	504	766
Trade and other payables	11	1,662,258	1,488,694
Total Current Liabilities		1,662,762	1,489,460
Non Current Liabilities			
Provisions	12	31,635	26,635
Total Non Current Liabilities		31,635	26,635
TOTAL LIABILITIES		1,694,397	1,516,095
NET (LIABILITIES)		(1,655,654)	(1,092,601)
EQUITY			
Share capital	13	13,466,607	13,292,914
Shares to be issued	13	15,000	15,000
Accumulated losses		(15,130,026)	(14,400,515)
Non-controlling interests	18	(7,235)	-
TOTAL (DEFICIENCY) IN EQUITY		(1,655,654)	(1,092,601)

The above Statement of Financial Position is to be read in conjunction with the attached notes.

INTERNATIONAL INNOVATIONS LTD

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

Consolidated Group	Issued Capital \$	Shares to be Issued \$	Accumulated Losses \$	Non- Controlling Interests \$	Total Equity \$
Balance – 1 July 2009	13,292,914	15,000	(14,400,515)	-	(1,092,601)
Issue of share capital	185,107	-	-	-	185,107
Share issue costs	(11,414)	-	-	-	(11,414)
Loss attributable to members	-	-	(704,043)	(8,596)	(712,639)
Acquired non-controlling interest (Note 17)	-	-	(25,468)	1,361	(24,107)
Balance – 30 June 2010	13,466,607	15,000	(15,130,026)	(7,235)	(1,655,654)
Balance – 1 January 2008	8,834,508	18,500	(9,917,031)	-	(1,064,023)
Issue of share capital	4,583,196	(3,500)	-	-	4,579,696
Share issue costs	(124,790)	-	-	-	(124,790)
Loss attributable to members	-	-	(4,483,484)	-	(4,483,484)
Balance – 30 June 2009	13,292,914	15,000	(14,400,515)	-	(1,092,601)

The above Statement of Changes in Equity is to be read in conjunction with the attached notes.

INTERNATIONAL INNOVATIONS LTD

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Group 30 June 2010 \$	Consolidated Group 18 months to 30 June 2009 \$
Cash flows from operating activities			
Payments to suppliers and directors		(390,756)	(1,416,957)
Receipts from ATO		141,011	-
Interest received		4,395	-
Interest paid		(94)	(3,225)
Net Cash used in operating activities	14(a)	(245,444)	(1,420,182)
Cash flows from investing activities			
Cash acquired on acquisition of Subsidiary		-	(414)
Purchase of plant & equipment		-	(9,254)
Net cash used in investing activities		-	(9,668)
Cash flows from financing activities			
Proceeds from issue of shares		161,000	1,869,493
Payments for share issue costs		(11,414)	-
Advances to director		(115,127)	(572,424)
Proceeds from director		215,380	80,000
Net cash provided by financing activities		249,839	1,377,069
Net increase/(decrease) in cash held		4,395	(52,781)
Cash and cash equivalents at beginning of period		(666)	52,115
Cash and cash equivalents at end of period	14(b)	3,729	(666)

The above Statement of Cash Flows is to be read in conjunction with the attached notes.

INTERNATIONAL INNOVATIONS LTD

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

NOTE 1 INTRODUCTION

International Innovations Limited is incorporated in Australia.

Operations and Principal Activities

The operations and principal activities of the company comprise the development and design of patent applications relating to Thermal Hydraulic Generators (THG) MOREAMPS & OTELLO for converting waste heat energy into mechanical work generating electricity. Also automotive transmission systems QISS Clutch.

Currency: The financial report is presented in Australian dollars.

Registered Office: PKF Level 14, 140 William Street, Melbourne, Victoria, 3000

Principal Place of Business: Level 29, 2 Chifley Square, Sydney NSW 2000

Authorisation of Financial Report: The financial report was authorised for issue on the date of signing the director's declaration by the directors.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by International Innovations Limited are stated in order to assist in a general understanding of the financial report. The financial report is a general purpose financial report prepared on the historical cost basis in accordance with Australian Accounting Standards and the Corporations Act.

The report is prepared on a going concern and accruals basis and is based on historic costs and does not take into account changing money values or, except where specifically stated, current valuations of non-current assets.

These accounts are for the year ended 30 June 2010. The comparative figures represent an eighteen (18) month period from 1 January 2008 to 30 June 2009.

Financial Report Complies with AIFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRS). Compliance with the Australian equivalents to IFRS (AIFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Going Concern

The financial report has been prepared in accordance with generally accepted accounting principles, which are based on the Company continuing as a going concern.

The Company was incorporated in 2003 to acquire and further develop a range of patent applications relating to Thermal Hydraulic Generators, for converting waste heat energy into mechanical work generating electricity, and for automotive transmission systems. Since that time the Company has further developed these technologies, sought commercial opportunities and protected them through the registration and maintenance of patents. The cost of these activities and general administration costs have been met from capital raisings. During the 2009 financial period International Innovations Limited ("IIL") acquired 63.78% of Select Design Technologies Limited ("SDTL"), a company which holds rights over complementary technologies.

INTERNATIONAL INNOVATIONS LTD

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Going Concern (Cont'd)

As the Consolidated Entity has not received any revenue streams from these activities it has incurred losses from incorporation to the current date and for the year ended 30 June 2010 these amounted to \$712,639 (Eighteen months ended 30 June 2009 \$4,483,484). In addition the Consolidated Entity had a deficiency of net assets of \$1,655,654 (2009 \$1,092,601) as at that date, with liabilities comprising loans from directors and shareholders of \$169,081 (2009 \$90,223) related party payables of \$72,905 (2009 \$83,542) and accruals and sundry creditors of \$1,420,272 (2009 \$1,314,929). Included within sundry creditors are significant liabilities to the Australian Taxation Office in relation to which the company receive a Creditors Statutory Demand for Payment, dated 30 June 2010.

These matters give rise to a material uncertainty that may cast significant doubt about the ability of the Company and Consolidated Entity to continue as a going concern.

The Company and Consolidated Entity is dependent upon the ongoing support of its creditors, future capital raisings or ongoing support from the Company's chairman, Mr Hargreaves. A letter of support has been received from Mr Hargreaves who undertakes to continue to provide funding to the Company and Consolidated Entity such that they are able to meet their liabilities as and when they fall due for as long as they require such funding.

The directors of IIL are working to prepare a disclosure document to raise capital from existing shareholders through an Offer Information Statement (OIS) to be followed by the preparation of a prospectus to raise further capital through an initial public offering.

Should the Company and Consolidated Entity be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amounts and classification of liabilities that might result should the Company and Consolidated Entity be unable to continue as a going concern and meet its debts as and when they fall due.

(a) Principles of Consolidation

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(b) Revenue Recognition

Revenue from the sale of goods is recognised when all significant risks and rewards of ownership have been transferred to the buyer. In most cases this coincides with the transfer of legal title or the passing of possession to the buyer.

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

INTERNATIONAL INNOVATIONS LTD

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Income Taxes

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

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

(d) Translation of Foreign Currency Transactions

Transactions in foreign currencies on initial recognition in the functional currency are recorded by applying to the foreign currency amount the spot exchange rate at the date of the transaction.

At each balance date:

- (a) foreign currency monetary items are reported using the closing rate;
- (b) non-monetary items which are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- (c) non-monetary items which are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially translated during the period, or in previous financial statements, are recognised in profit or loss in the period in which they arise, with the exception of exchange differences arising on a monetary item that forms part of the net investment in a foreign operation which are recognised initially in a separate component of equity and recognised in profit or loss on disposal of the net investment.

(e) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments, net of outstanding bank overdrafts.

(f) Receivables

Trade accounts and notes receivable and other receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and provisions for doubtful accounts.

INTERNATIONAL INNOVATIONS LTD

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Plant and Equipment

Plant and equipment are brought to account at cost, less where applicable any accumulated depreciation. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets.

Plant and equipment is written off over its estimated useful life to the Company, commencing from the time the asset is held ready for use, using the diminishing balance method. The depreciation rates used for each class of depreciable assets are:

Office Equipment	10%-37%
Plant and Equipment	30%

(h) 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 and 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. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement 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.

Financial Liabilities

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

(i) Accounts Payable

Payables and accrued liabilities represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest.

(j) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, together with benefits arising from wages and salaries and annual leave which will be settled after one year, have been measured at their nominal amount. Other 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.

Contributions are made by the company to an employee superannuation fund and are charged as expenses when incurred.

INTERNATIONAL INNOVATIONS LTD

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the Balance Sheet are shown inclusive of GST.

(l) Research and Development Expenditure

Research expenditure is recognised as an expense in the period in which incurred. Intangible assets arising from development activities are recognised when resources are available to complete the assets and future economic benefits from use or sale of the assets is probable.

(m) Share-Based Payment Arrangements

Goods or services received or acquired in a share-based payment transaction are recognised as an increase in equity if the goods or services were received in an equity-settled share-based payment transaction or as a liability if the goods and services were acquired in a cash settled share-based payment transaction.

For equity-settled share-based transactions, goods or services received are measured directly at the fair value of the goods or services received provided this can be estimated reliably. If a reliable estimate cannot be made the value of the goods or services is determined indirectly by reference to the fair value of the equity instrument granted.

Transactions with employees and others providing similar services are measured by reference to the fair value at grant date of the equity instrument granted. The fair value of goods or services received and the fair value of equity instruments granted is determined by reference to other arms length share issues at the time of the share based payments.

(n) Comparative Figures

Comparatives have been reclassified where appropriate so as to be consistent with the figures presented in the current year. Australian equivalents to International Financial Reporting Standards have been applied to all current and comparative figures consistently.

(o) New Accounting Standards and Interpretations Not Yet Effective

There have been a number of amendments made to Accounting Standards issued by the Australian Accounting Standards Board ("AASB") that are not yet effective. The directors do not believe that the new and revised standards issued by the AASB that are not yet effective will have any material impact on the financial statements.

(p) Significant Judgements and Key Assumptions

There are no significant judgements or key assumptions made by management in the application of accounting policies that are considered to have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year.

INTERNATIONAL INNOVATIONS LTD

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

NOTE 3 INCOME TAX

	Consolidated Group 30 June 2010 \$	Consolidated Group 30 June 2009 \$
(a) Income Tax Benefit		
Prima facie income tax benefit calculated at 30% on the loss for the year to 30 June 2010 (18 month period to 30 June 2009)	213,792	1,387,349
Less Tax effect of:		
Non-deductable expenses		
Impairment of goodwill / investment	-	(839,372)
Deferred tax asset not yet recognised	(213,792)	(547,977)
Research and Development tax offsets		(141,011)
Income tax (benefit)	-	(141,011)
(b) Deferred tax asset calculated at 30%		
The potential deferred tax asset not recognised is as follows: Losses not recognised	1,416,499	1,202,707

A deferred tax asset in respect of tax losses has not been accounted for as an asset in the financial statements as the realisation of the benefit is not probable. The tax losses identified above may not be able to be recovered in future taxable income earning years. The balance is identified however it has not been determined if the company has met the continuity of ownership test or same business test to enable all or part of these losses to be utilised.

(c) Income tax refund as per the Statement of Comprehensive Income

The 2009 income tax refund, as per the Statement of Comprehensive Income of \$141,011, represents research and development tax offsets received during the period for the year ended 31 December 2007. Work is in progress to determine whether claims for the six month period ended 30 June 2008 and the years ended 30 June 2009 and 30 June 2010 can be made. At this stage the value of the potential claims is not able to be measured reliably.

NOTE 4 REVENUE

Interest received	4,395	-
Foreign exchange gain	12,787	-
	17,182	-

INTERNATIONAL INNOVATIONS LTD

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

	Consolidated Group 30 June 2010 \$	Consolidated Group 30 June 2009 \$
NOTE 5 CASH AND CASH EQUIVALENTS		
Cash on hand	4,233	100
	4,233	100
NOTE 6 RECEIVABLES		
Current		
Goods and services tax	13,936	24,476
Sundry debtors	-	141,011
Loan to director – Steve Hargreaves	-	247,498
	13,936	412,985
NOTE 7 OTHER CURRENT ASSETS		
Prepayments	13,915	-
	13,915	-
NOTE 8 PLANT AND EQUIPMENT		
Office equipment at cost	28,989	29,094
Less: Accumulated depreciation	(24,925)	(22,392)
	4,064	6,702
Plant & equipment at cost	5,580	5,580
Less: Accumulated depreciation	(2,985)	(1,873)
	2,595	3,707
Total plant & equipment	6,659	10,409
Movement in carrying values during the period:		
- Office equipment		
Balance at beginning of period	6,702	10,091
Additions	-	3,674
Depreciation	(2,638)	(7,063)
End of period	4,064	6,702
- Plant & Equipment		
Balance at beginning of reporting period	3,707	-
Additions	-	5,580
Depreciation	(1,112)	(1,873)
End of period	2,595	3,707
Total plant & equipment	6,659	10,409

INTERNATIONAL INNOVATIONS LTD

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

	Consolidated Group 30 June 2010 \$	Consolidated Group 30 June 2009 \$
NOTE 9 INTANGIBLES		
Goodwill		
Select Design Technologies Ltd	2,797,908	2,797,908
Less impairment	(2,797,908)	(2,797,908)
	-	-
Reconciliation of movements		
Opening balance	-	-
Acquired on acquisition of controlled entity	-	2,797,908
Less impairment	-	(2,797,908)
	-	-
<p>During the 30 June 2009 financial period, the directors assessed the recoverable amount of goodwill and due to the uncertainty surrounding the timing and quantum of the potential cash flows from the technology acquired determined the goodwill relating to the acquisition of SDTL was considered to be impaired.</p>		
NOTE 10 FINANCIAL LIABILITY		
Bank overdraft	504	766
NOTE 11 PAYABLES		
Current		
Unsecured –		
Accruals and sundry creditors	1,420,272	1,314,929
Related party payables	72,905	83,542
Loan from directors	132,807	53,949
Shareholders loan	36,274	36,274
	1,662,258	1,488,694
NOTE 12 PROVISIONS		
Employee benefits	31,635	26,635

INTERNATIONAL INNOVATIONS LTD

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

	Consolidated Group 30 June 2010 \$	Consolidated Group 30 June 2009 \$
NOTE 13 SHARE CAPITAL		
1,217,444,240 (2009:1,198,933,492) fully paid ordinary shares	13,466,607	13,292,914

Reconciliation of movement in ordinary shares during the period

	No of Shares		
Opening balance 1 July 2009	1,198,933,492	13,292,914	-
Issues for working capital	16,100,000	161,000	-
Acquisition of further interest in subsidiary	2,410,748	24,107	-
Share issue costs	-	(11,414)	-
Closing balance 30 June 2010	1,217,444,240	13,466,607	-
Opening balance 1 Jan 2008	724,954,311	-	8,834,508
Issues for working capital	208,387,929	-	1,927,283
Transfer from shares to be issued	350,000	-	3,500
Acquisition of subsidiary	258,541,252	-	2,585,413
Settlement of Share issue Cost	6,700,000	-	67,000
Share issue costs	-	-	(124,790)
Closing balance 30 June 2009	1,198,933,492	-	13,292,914

Shares to be Issued

As at 30 June 2010, 1,000,000 (30 June 2009: 1,000,000) shares in relation to \$15,000 (30 June 2009: \$15,000) funds received for working capital purposes had not been formally issued.

Terms and Conditions of Ordinary Shares

The company does not have limited authorised capital and issued shares have no par value.

Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Capital Management

The Board's policy is to maintain an adequate capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There were no changes in the company's approach to capital management during the year. The company is not subject to externally imposed capital requirements. The directors are seeking to raise additional capital through equity raisings to enable this policy to be met during the research and development phase of the company.

INTERNATIONAL INNOVATIONS LTD

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

NOTE 14 CASH FLOW INFORMATION

	Consolidated Group 30 June 2010 \$	Consolidated Group 30 June 2009 \$
(a) Reconciliation of net cash used in operating activities		
Total loss after income tax	(712,639)	(4,483,484)
Add/(less) non-cash items:		
- Depreciation expense	3,750	8,936
- Non-cash movements in director loan account	226,103	-
- Impairment of goodwill	-	2,797,908
Changes in assets and liabilities		
- Decrease/(increase) in receivables	137,636	(152,190)
- Increase in provisions	5,000	26,635
- Increase in payables	94,706	382,012
Cash flows (used in) operating activities	(245,444)	(1,420,183)
(b) Reconciliation of Cash		
Cash at the end of the financial year as shown in the of cash flow statement is reconciled to items in the balance sheet as follows:		
- Cash on hand	100	100
- Cash at bank	4,133	-
- Bank overdraft	(504)	(766)
	3,729	(666)

(c) Non-Cash Investing and Financing Activities

During the year to 30 June 2010 a 0.59% interest in Select Design Technologies Limited ("SDTL") was acquired through the issue of shares at 0.01 cents totalling \$24,107 (In 2009 a 63.19% interest in SDTL was acquired through the issue of shares at 0.01 cents totalling \$2,585,413 – Note 17).

During the period \$Nil (2009: \$124,790) of share issue costs were settled through the issue of shares or retained as consideration for share issue costs prior to the receipt of share proceeds.

NOTE 15 AUDITOR'S REMUNERATION

Audit of financial report	12,000	22,000
Other non-audit services	3,000	53,409
	15,000	75,409

INTERNATIONAL INNOVATIONS LTD

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

NOTE 16 RELATED PARTY TRANSACTIONS

Directors	Position
Mr S Hargreaves	Executive Chairman, CEO and Company Secretary (Appointed 12 November 2003)
Dr M Bolton	Non-Executive Director (Appointed 7 June 2007)
Dr S Pilditch	Non-Executive Director (Appointed 7 June 2007)
Mr R Husher	Non-Executive Director (Appointed 7 June 2007, Resigned 25 January 2010)
Mr D Diamond	Non-Executive Director (Appointed 3 June 2010, Resigned 25 June 2010, Appointed 25 June 2010 Company Secretary)

Key Management Personnel Compensation

Key management personnel comprise the directors.

	Consolidated Group 30 June 2010 \$	Consolidated Group 30 June 2009 \$
Short term employee benefits	308,500	518,727
Post employment benefits	27,000	41,490
	335,500	560,217

Principles of Compensation

The board policy for determining the nature and amount of compensation of key management personnel is as follows:

- Remuneration of executive directors is determined by the Board of directors having regard to the company's operational and financial performance. Consideration is given to the person's duties and responsibilities.
- Remuneration of non-executive directors is determined by the Board of directors having regard to industry practice and the need to obtain appropriately qualified persons.

Shareholdings held directly, indirectly or beneficially by each key management person including their related parties

Ordinary Shares of International Innovations Ltd

Director	Balance at 01/07/2009	Granted as remuneration	Received on acquisition of SDTL	Other Changes	Balance at 30/6/2010
S M Hargreaves	310,980,154	-	-	(70,789,500)	240,190,654
Total	310,980,154	-	-	(70,789,500)	240,190,654

INTERNATIONAL INNOVATIONS LTD

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

NOTE 16 RELATED PARTY TRANSACTIONS (CONT'D)

Other transactions and balances

During the year International Innovations Ltd paid \$27,404 (2009: \$118,177) relating to expenses incurred by SDTL.

During the previous year the company advanced \$40,000 to Bernd Schlagregen, former director, to pursue the development of existing patents. Bernd resigned as director on 19 January 2009 and the entity considered the loan to not be recoverable and subsequently wrote off the \$40,000 as a bad debt.

Mr Hargreaves provided interest free loans to the company with no fixed terms of repayments in respect of the loans.

Receivables and payables to directors and director-related entities

	Consolidated Group 30 June 2010 \$	Consolidated Group 30 June 2009 \$
Receivables		
Loans to directors – unsecured	-	247,498
Amounts payable by Select Design Technology Pty Ltd	-	-
Payables		
Directors fees payable to Ian Kiernan	-	25,000
Directors fees payable to David Diamond	30,331	30,331
Superannuation payable to Stephen Hargreaves	42,574	28,211
Loans from directors – unsecured	132,807	53,949

Advances and repayments of loans	Opening Balance \$	Advances \$	Repayments \$	Interest \$	Closing Balance \$
S Hargreaves - IIL	247,498	114,690	(441,483)	-	(79,295)
S Hargreaves - SDTL	(53,949)	437	-	-	(53,512)
Total	193,549	115,127	(441,483)	-	(132,807)

Parent and Ultimate Controlling Entity

The company does not have any immediate or ultimate parent entity.

INTERNATIONAL INNOVATIONS LTD

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

NOTE 17 BUSINESS ACQUISITIONS

Subsidiary: Select Design Technologies Limited
 Country of incorporation: Australia
 Percentage owned: 63.78% (2009: 63.19%)
 Date acquired: 31 May 2009

		\$
Consideration provided by the parent entity at completion was:		
- Issue of 258,541,252 fully paid ordinary shares @ \$0.01		2,585,413
Assets and liabilities acquired	Acquiree's carrying amount	Fair Value
Cash at bank and on hand	(414)	(414)
Receivables	4,588	4,588
Payables	(48,347)	(48,347)
Loans to / from related parties	(168,322)	(168,322)
Net asset deficiency	(212,495)	(212,495)
Goodwill		2,797,908

During the year to 30 June 2010 a further 0.59% of Select Design Technologies Limited was acquired via the issue of shares at 0.01 cents totalling \$24,107. In accordance with Accounting Standards the total cost of this additional acquisition, \$24,107, has been debited to equity with \$1,361 relating to the non-controlling interests share.

NOTE 18 NON-CONTROLLING INTERESTS IN CONTROLLED ENTITY

	Consolidated Group 30 June 2010 \$	Consolidated Group 30 June 2009 \$
Non-controlling shareholders have the following interests in the equity of controlled entities:		
- Issued share capital	-	-
- Pre-acquisition accumulated losses	-	-
- Acquisition of a further 0.37% of the non-controlling interests share	1,361	-
- Share of net loss after income tax for the period	(8,596)	-
Total non-controlling interests	(7,235)	-

The controlled entity has a deficiency of net assets and made a loss for the period. In accordance with Accounting Standards in force at 30 June 2009 no allocation of this deficiency was made to the non-controlling interest. Amendments to AASB 127 which have effect from 1 July 2009 require deficit balances to be attributed to non-controlling interests on a prospective basis.

INTERNATIONAL INNOVATIONS LTD

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

NOTE 19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial Instruments

The economic entity's principal financial instruments comprise receivables, payables, bank overdraft, cash and cash equivalents. These activities expose the economic entity to a variety of financial risks: interest rate risk, currency risk, price risk, credit risk and liquidity risk.

Although the economic entity does not have documented policies and procedures, the directors and management manage the different types of risks to which it is exposed by considering and monitoring levels of exposure to interest rate and foreign exchange risk and by being aware of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through general business budgets and forecasts.

	Interest Weighted Average Rate	Variable Interest		Non-Interest Bearing		Fixed Interest				Total	
		June 2010	June 2009	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009	June 2010	June 2009
Consolidated		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Financial Assets:											
Cash		4,133	-	100	100	-	-	-	-	4,233	100
Receivables		-	-	27,851	412,985	-	-	-	-	27,851	412,985
Total Financial Assets:		4,133	-	27,951	413,085	-	-	-	-	32,084	413,085
Financial Liabilities:											
Bank overdraft		504	766	-	-	-	-	-	-	504	766
Payables		-	-	1,622,258	1,488,694	-	-	-	-	-	1,488,694
Total Financial Liabilities:		504	766	1,622,258	1,488,694	-	-	-	-	1,662,762	1,489,460

Risks Exposures and Responses

Interest Rate Risk

The effect of volatility of interest rates within expected reasonable possible movements would not be material.

Price Risk

The economic entity's exposure to commodity and equity securities price risk is minimal.

Currency Risk

At 30 June 2010 a foreign currency exposure of 41,148 Euros existed.

Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets. There are no significant concentrations of credit risk.

Liquidity Risk

The economic entity manages liquidity risk by monitoring cash flow and maturity profiles of financial assets and liabilities. No financial assets or liabilities of the parent or economic entity have maturities extending beyond six months.

INTERNATIONAL INNOVATIONS LTD

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

NOTE 20 PARENT ENTITY INFORMATION

	2010	2009
	\$	\$
Information relating to International Innovations Limited		
Current assets	28,341	487,220
Total assets	35,000	497,629
Current liabilities	1,521,387	1,344,831
Total liabilities	1,553,022	1,371,466
Issued capital	13,466,607	13,292,914
Shares to be issued	15,000	15,000
Accumulated losses	(14,999,629)	(14,181,751)
Total Shareholder's Equity	(1,518,022)	(873,837)
Loss of the parent entity (2009: Eighteen months to 30 June 2009)	(817,878)	(4,264,720)
Total comprehensive income of the parent entity (2009: Eighteen months to 30 June 2009)	(817,878)	(4,264,720)

The parent has not provided guarantees in relation to the debts of its subsidiaries as at 30 June 2010.

The parent does not have any contingent liabilities as at 30 June 2010.

The parent entity does not have any commitments for expenditure as at 30 June 2010.

NOTE 21 SEGMENT REPORTING

The company operated in the European market for the development of technologically advanced products.

NOTE 22 COMMITMENTS FOR EXPENDITURE

There are no commitments for expenditure as at 30 June 2010.

NOTE 23 EVENTS AFTER BALANCE DATE

There have been no significant after balance date events.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF INTERNATIONAL INNOVATIONS LIMITED****Report on the Financial Report**

We have audited the accompanying financial report of International Innovations Limited, which comprises the Statement of Financial Position 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 information and the Directors' Declaration for both International Innovations Limited and the consolidated entity. The consolidated entity comprises International Innovations Limited and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with 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 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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 entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Basis for Adverse Auditor's Opinion

The Directors have prepared the financial report on the going concern basis as described in Note 2 "Going Concern" and state in the Director's declaration that in their opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

The company and consolidated entity have a deficiency of assets and are reliant on future capital raisings or ongoing support from a director, Mr Steve Hargreaves. The Company and consolidated entity have previously received financial support from Mr Hargreaves and Mr Hargreaves has provided a letter indicating his ongoing support, however we have been unable to obtain sufficient appropriate evidence as to whether the company will be able to raise sufficient funds, or whether the Director, Mr Steve Hargreaves, has the capacity to provide funding to ensure the company will be able to continue to pay its debts as and when they fall due.

2010 AUDITED 30 JUNE 2010 FINANCIAL ACCOUNTS - IIL FINAL

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**INDEPENDENT AUDITOR'S REPORT (CONT'D)
TO THE MEMBERS OF INTERNATIONAL INNOVATIONS LIMITED**

Basis for Adverse Auditor's Opinion (Cont'd)

The Director's have advised they are working to prepare a disclosure document for raising additional capital to meet its liabilities and fund its ongoing operations and research and development activities. We have not been able to obtain sufficient appropriate evidence to conclude that it is not highly improbable that the company will continue as a going concern.

Adverse Auditor's Opinion

For the reasons set out in the Basis for Adverse Auditor's Opinion paragraph above, we conclude:

- (a) the financial report of International Innovations Limited is not in accordance with the Corporations Act 2001, and does not:
 - (i) give 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;
 - (ii) comply with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report does not comply with International Financial Reporting Standards as disclosed in Note 2.



PKF

23 July 2010
Melbourne



R A Dean
Partner