

ASX RELEASE

28 September 2009

2009 Annual Report

In accordance with Listing Rule 4.7, Two Way Limited lodges its Annual Report for the financial year ended 30 June 2009 (including the directors' report, the financial report, the directors' declaration and the audit report).

Shareholders should note that the Company has recently announced a pro rata rights issue, which is fully underwritten by Bell Potter Securities Limited. This provides support for the Director's view, as expressed in the Annual Report, that the Company will be successful in raising further capital if required.

A Notice of Meeting for the 2009 Annual General Meeting, to be held on 19 November 2009 (including explanatory notes, letter of invitation to shareholders and proxy form), will be lodged shortly.

For further information:

Ben Reichel
Chief Executive Officer and Managing Director
Phone: +612 9017 7000 or 0412 060 281

ABOUT TWO WAY LIMITED (ASX: TTV)

Two Way creates advanced interactive media and gambling applications. Our competitive strengths include our specialised expertise, patented technology, and library of interactive applications, which can be deployed on TV, mobile or internet.

Two Way has developed an award-winning interactive TV wagering service with Tabcorp Holdings Limited (ASX:TAH) and Foxtel, with the potential to establish similar relationships with other wagering and broadcasting partners throughout Australia and overseas.

Our interactive wagering technology offers advanced betting features and related information, and utilises the latest synchronisation techniques to enhance the user experience. This technology can be applied to both racing and sports betting applications.

Our Way2Bet wagering portal offers an extensive range of information resources to help punters bet better. These services are available via online and mobile devices at www.way2bet.com.au and way2bet.mobi.

Our Way2Play casual games portal complements and extends our interactive TV games channels.

Two Way's products are currently being deployed by leading wagering and interactive TV operators in Australia and New Zealand. Our clients include Tabcorp, Foxtel, Austar and Sky New Zealand.

To learn more about Two Way visit www.twowaytv.com.au





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FROM THE CHAIRMAN AND THE CEO

In the 2009 financial year, Two Way limited continued to pursue its strategy of developing and supplying world-class interactive technology and services for broadcasters and licensed wagering operators.

The results achieved during the year demonstrate that this strategy is working, although not as quickly as we would like. There have been significant delays in extending the Company's flagship TV wagering service around Australia. The Company continues to work patiently through the issues, and has had some success during the year.

The major achievement during the year was the launch of our TV wagering service in New South Wales in early October 2008. This enabled the service to be enjoyed by NSW punters during most of the 2008 Spring Racing Carnival. Revenue from the service increased dramatically during this period.

In early 2009 revenue from the service dropped off slightly, reflecting a gloomier economic environment. However in mid-year the revenue from the service began growing again, with August 2009 recording our highest monthly turnover to date – even higher than November 2008, at the height of last year's Spring Racing Carnival.

The Board has devoted significant attention during recent months to an improved marketing strategy for the TV wagering service. As part of this strategy, the service has now been rebranded as TAB ACTIVE, which provides immediate recognition that it is a TAB betting channel. The marketing strategy includes new advertisements on TV, radio, press, and online, together with direct mail. We expect to see the benefits of this new marketing strategy during the 2009 Spring Racing Carnival and beyond.

During the year the Company signed a non-binding Memorandum of Understanding with the operators of the TAB wagering services in Queensland, South Australia and Western Australia. Formal regulatory approval to launch our TV wagering service in Western Australia was received in May 2009. Substantial progress was also made in the technical work required to deploy the service in additional jurisdictions. The Board continues to believe that a national deployment of the TV wagering service offers significant potential for growth.

The Way2Bet wagering portal is another element in our strategy of providing leading technology to licensed wagering operators. This online and mobile odds comparison service now includes all of the major bookmakers in Australia as clients. The popularity of the site, and the revenue from it, continue to grow steadily.

Our Way2Play games services on interactive TV and online have taken a back seat during the year. These services, and occasional bespoke development work for TV broadcasters, enable the Company to continue to generate revenue from our well-recognised skills in interactive TV development.

The Company and its shareholders benefited from a year of stability at Board and senior management level, with no changes to the team appointed in July 2007.

The Board was very pleased to receive the support of shareholders through the successful rights issue conducted during the year.

FINANCIAL REVIEW

At the operating level, the Company's performance improved substantially from the previous year. Operating revenue (excluding interest, which is now non-material) grew by 31% to \$1.4m. At the same time, operating costs (excluding non-cash charges) were reduced by 35% to (\$2.9m). This led to a 56% improvement in the operating result, to a loss of (\$1.5m).

Net cash flow improved by 90%, to an outflow of (\$0.6m). In the previous year there were some significant one-off payments which inflates the relative cash flow performance to some extent. However, it is important to recognise that those payments were not required during FY09, and will not be required in the future.

Non-cash charges increased significantly. With the launch of the TV wagering service at the end of April 2008, the Company began amortising the upfront wagering fee paid to Foxtel on a straight line basis over the term of the five year contract. This was a change to our previous accounting methods, and caused total depreciation & amortisation to increase to \$1.2m.

In addition, despite the very early stage of deployment of the TV wagering service, the Company was required to test the carrying value of the upfront wagering fee for impairment, in line with the strict provisions of applicable accounting standards. This led to recognition of an impairment charge of \$2.5m.

The requirement to incur this impairment charge does not alter in any way the Board's view of the commercial prospects of the TV wagering service. It is an accounting charge which has no impact on ongoing operations.

The effect of these non-cash charges, totalling \$3.7m, was to cause the net loss for the year to increase by 17% to \$5.1m. This effectively conceals the underlying improvement in the business, which recorded a 56% improvement in the operating result.

The Company's strategy continues to be to increase revenue, while containing and reducing costs as much as possible. Revenue improvement will come from expanding the Company's TV wagering service around Australia, and in due course overseas, and by increasing the awareness and usage of it via improved marketing. In addition, as resources allow, the team will continue to develop the Way2Bet wagering portal and the Way2Play games services, while picking up bespoke development work for TV broadcasters where possible.

While the revenue and cost lines are both heading in the right direction, further work is required for the Company to generate positive cash flow and profit, and in due course, to pay out dividends. The Board and management continue to focus relentlessly on this goal.



A handwritten signature in black ink, appearing to read 'Stuart McGregor'.

Mr Stuart McGregor
Chairman



A handwritten signature in black ink, appearing to read 'Ben Reichel'.

Mr Ben Reichel
Chief Executive Officer

INFORMATION ON DIRECTORS

Mr Stuart James McGregor Non-Executive Chairman

Stuart McGregor was educated at Melbourne University and the London School of Business Administration, gaining degrees in Commerce and Law. He also completed a Masters of Business Administration.

Over the last 30 years, Stuart has had a wide-ranging business career with active involvement across the Australasian and Asian Region. In business, he has been Company Secretary of Carlton United Breweries, Managing Director of Cascade Brewery Company Ltd in Tasmania and Managing Director of San Miguel Brewery Hong Kong Ltd, a publicly listed Hong Kong based company with subsidiary businesses in China. In the public sector, he served as Chief of Staff to a Minister for Industry and Commerce in the Federal Government and as Chief Executive of the Tasmanian Government's economic development agency. Mr McGregor was formerly a director of Primelife Limited from 1 December 2001 to 31 March 2004.

Stuart is a member of Two Way Limited's Audit & Risk Management Committee and Nominations, Remuneration & Corporate Governance Committee.

Mr Craig Francis Connelly Non-Executive Director

Craig Connelly is Managing Director of AR Capital Management Pty Limited, a Melbourne-based equity fund manager. He has worked in financial markets for the past sixteen years, and prior to that spent five years at Price Waterhouse. He holds a Bachelor of Business (Accounting) and is a qualified Chartered Accountant, a Member of the Institute of Chartered Accountants and a Fellow of Finsia (Financial Services Institute of Australia).

Mr Connelly joined Goldman Sachs JB Were (formerly JB Were) as an assistant analyst in early 1993, and became a securities analyst in 1994. He was made an equity partner in 1996 at the age of 30. He left Goldman Sachs JB Were in mid-2004 to establish AR Capital Management. Craig is Chairman of Two Way Limited's Audit & Risk Management Committee.

Mr Christopher Roberts Grant-Foster Non – Executive Director

Chris Grant-Foster is the Managing Director/CEO of Insite Management, a communications company with expertise in media buying, marketing, talent management and public relations. Chris was previously the Chief Executive Officer of Two Way Limited and oversaw the signing of the pay TV wagering deal with Tabcorp and Foxtel.

Chris has extensive experience in the telecommunications, content and media fields. He has held senior positions as Managing Director iTouch Asia Pacific, General Manager Telecommunications Samsung Australia, General Manager Technology and Operations Mobile Hutchison 3, and Siemens Ltd where he worked in London and Australia on Business Systems and Mobile. Chris is Chairman of Two Way Limited's Nominations, Remuneration & Corporate Governance Committee.

Mr Benedict Paul Reichel Managing Director & CEO

Ben Reichel was appointed as Chief Executive Officer and Managing Director in July 2007. He previously held the role of Chief Operating Officer for approximately 18 months. In that role he was responsible for the day to day management of the business. Ben also previously held the roles of General Counsel and Company Secretary.

Ben was educated at the University of Sydney and the University of California, Berkeley. He holds a Bachelor of Arts, Bachelor of Laws with First Class Honours and Master of Laws with First Class Honours.

Ben has over seventeen years' experience in major Australian listed public companies and law firms. Before joining Two Way, Ben was General Counsel of Tab Limited, a top 75 ASX listed company. Prior to that, he was General Counsel of Sky Channel Pty Limited and held a number of executive positions at Publishing and Broadcasting Limited.

CORPORATE GOVERNANCE STATEMENT

The Company is committed to good corporate governance practices. These practices are reflected in the Company's policies and are designed to ensure that there are appropriate levels of disclosure and accountability.

The Company has endorsed the updated Corporate Governance Principles and Recommendations released by the ASX Corporate Governance Council, and seeks to follow them to the extent that it is practicable having regard to the size and nature of its operations. All best practice recommendations have been followed for the financial year ended 30 June 2009, except to the extent described below.

The Board has adopted a detailed set of Corporate Governance Policies, which encompass the following:

- Board Charter;
- Directors' Code of Conduct;
- Directors' Disclosure Policy and Policy for Handling Conflicts of Interest;
- Board Committee Standing Rules;
- Audit and Risk Management Committee Charter;
- Policy on Relationship with the External Auditor;
- Nominations, Remuneration and Corporate Governance Committee Charter;
- Market Disclosure Policy; and
- Securities Trading Policy and Guidelines.

Copies of these policies are available from the "Corporate Governance" section of our website, www.twowaytv.com.au.

BOARD COMPOSITION

Due to the small size of the Company and its operations, a Board of four directors is considered appropriate at this stage.

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report are set out above.

The names of independent directors of the Company are:

Mr Stuart McGregor
Mr Craig Connelly

A non-executive director is only to be regarded as independent if:

- (a) the Board resolves that the director has no material relationship with the Company (either directly, or as a partner, shareholder, or executive officer of an organisation that has a material relationship with the Company). Specific materiality thresholds have not been set, but will be evaluated on a case by case basis;
- (b) the director is not a substantial shareholder (holding greater than 10% of issued share capital) of the Company or any officer of, or otherwise directly associated with, a substantial shareholder of the Company;

- (c) the director is not, and has not been within the previous three years:
 - i. employed by the Company;
 - ii. a principal of a material professional adviser or a material consultant to the Company; or
 - iii. employed by, or a partner in, any firm that in the past three years has been the Company's external auditor; and
- (d) no immediate family member of the director is an executive officer of the Company or, except where the immediate family member has died or become incapacitated, has been an executive officer of the Company within the previous five years.

Independent directors have the right to seek independent professional advice at the Company's expense in the furtherance of their duties as directors. The Board has an established procedure for directors to take independent professional advice at the expense of the Company. Where a director seeks reimbursement for legal and other accounting related expenses, the matter must be reviewed by the Nominations, Remuneration and Corporate Governance Committee, preferably before the expense is incurred.

The names of the members of the Nominations, Remuneration and Corporate Governance Committee and their attendance at meetings of the Committee are detailed in the Directors' Report.

SECURITIES TRADING POLICY

The Company's policy regarding directors and employees trading in its securities has been set by the Board. The policy supplements the restrictions on insider trading under the Corporations Act. It restricts directors and employees from trading in shares of the Company, except for defined periods of 30 days after the release of the half-year and full year results, and after the Annual General Meeting. During those trading windows, directors and employees must notify the Company Secretary before trading and confirm that they do not hold any materially price sensitive non-public information. Directors must also seek clearance from the Chairman.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Company has an established Audit and Risk Management Committee to safeguard integrity in financial reporting. It consists only of independent non-executive directors. However, due to the small size of the Company and the Board, the Committee currently has only two members. Accordingly, the Company complies with Recommendation 4.3, except to the extent that it recommends that the Audit Committee consists of at least three members.

The names and qualifications of those appointed to the Audit and Risk Management Committee and their attendance at meetings of the Committee are included in the Directors' Report.

PERFORMANCE EVALUATION

No formal annual performance evaluation of the Board was conducted during the year. However, the Chairman closely monitors the performance of the Board at all times. The Board regularly reviews its overall performance, and the performance of its Committees and individual Directors, by way of discussion among members of the Board, in a manner that is consistent with ASX Principle 8.

REMUNERATION POLICIES

The Board has an established Nominations, Remuneration and Corporate Governance Committee, which is responsible for setting the overall remuneration policy and guidelines for the Company. The Committee seeks guidance from professional external remuneration consultants when required.

All executives receive a base salary and superannuation, and are eligible to receive fringe benefits and performance incentives. Executives are also entitled to participate in the Company's Option Plan. The policy is designed to attract, motivate and retain the highest calibre executives and reward them for performance which results in long-term growth in shareholder value.

The payment of bonuses, options and other incentive payments are reviewed by the Nominations, Remuneration and Corporate Governance Committee as part of the review of executive remuneration, and a recommendation is put to the Board for approval. The Board can exercise its discretion in relation to approving incentives, bonuses and options and can adopt changes to the Committee's recommendations.

The names of the members of the Nominations, Remuneration and Corporate Governance Committee, and their attendance at meetings of the Committee, are detailed in the Directors' Report.

There are no schemes for retirement benefits for non-executive directors, other than statutory superannuation.

The Remuneration Report included within the Directors' Report provides full details of the Company's remuneration policies, together with details of the amount of remuneration for all directors and the three highest-paid executives of the Company.

CODES OF CONDUCT

The Company has a detailed code of conduct for directors, and the following detailed policies are applicable to all directors and employees:

- market disclosure policy;
- securities trading policy;
- travel policy; and
- human resources policy.

However, the Company has not yet implemented a detailed code of conduct for all employees. To that extent, the Company does not yet fully comply with recommendation 10.1.

RISK ASSESSMENT AND MANAGEMENT

The Company has commenced a detailed review of processes and procedures to identify and manage material business risks, in a manner that is consistent with recommendations of Principle 7 of the ASX Corporate Governance Council *Corporate Governance Principles and Recommendations*. The detailed review will culminate in the development and implementation of a detailed risk management policy. The review and implementation of this policy is expected to be completed in the first half of the 2009/10 financial year.

As such the Company is yet to fully comply with the updated requirements of ASX Listing Rule 10.4.3 and hence, Principle 7 of the ASX Corporate Governance Council *Corporate Governance Principles and Recommendations*.

Notwithstanding the above, the Company's established Audit and Risk Management Committee operates to ensure the Company's finance function manages financial risk under policies and objectives approved by the Committee and the Board of Directors. The Board receives and reviews monthly financial reports, including where applicable, any issues relating to financial risk management. The Committee and the Board also take an active role in the budgeting and forecasting process. Refer Note 24 for further details of Financial Risk Management.

In addition, company policies, listed in the Codes of Conduct section above, further assist in risk management.

DIRECTORS' REPORT

Your Directors present their report on the Company and its controlled entities for the financial year ended 30 June 2009.

DIRECTORS

The names of Directors in office at any time during or since the end of the year are:

Mr Stuart James McGregor (Non-Executive Chairman)
Mr Benedict Paul Reichel (Managing Director)
Mr Craig Francis Connelly (Non-Executive Director)
Mr Christopher Roberts Grant-Foster (Non-Executive Director)

Details of Directors' qualifications, experience and special responsibilities are provided in the *Information on Directors*, on page 4.

COMPANY SECRETARY

Mr Rointon Nugara holds the position of Company Secretary.

Mr Nugara has been with Two Way since January 2005. He holds a Bachelor of Business (Accounting) from the University of Western Sydney and is a qualified CPA. Mr Nugara has 20 years experience in finance and accounting, having commenced his career at Arthur Young (later Ernst & Young), before moving to Sterling Winthrop Pharmaceuticals as Company Accountant. He then spent 7 years at Optus in various positions, culminating in the role of Commercial Manager in the Optus Business division. Prior to joining Two Way, Mr Nugara held the position of Planning & Analysis Manager at Foxtel.

PRINCIPAL ACTIVITIES

The principal activities of the economic entity during the financial year were the management and development of interactive media and gambling applications for deployment on television, mobile and internet. There were no significant changes in the nature of the economic entity's activities during the year.

REVIEW OF OPERATIONS AND RESULTS

The economic entity reported total revenue of \$1,465,751 in the 2009 financial year. Operating revenue increased by 31% to \$1.42m, whilst operating costs (excluding depreciation, amortisation and impairment expenses) continued to be reduced substantially (by \$1.55m or 35%). This led to a 56% improvement in the operating result. Interest revenue declined by 76% to \$0.05m, due to the Company's reduced cash holdings.

The economic entity reported a net loss of \$5,145,758 in the 2009 financial year. Included in the net loss was a non-cash impairment charge of \$2.47m against the carrying value of the prepaid wagering fee. This impairment charge was required after strict application of the provisions of *AASB 136 Impairment of Assets*. Excluding this item, the net loss of \$2.68m represented a 39% improvement on the prior year.

Operational highlights for the 2009 financial year include:

- The Company's TV wagering service (recently rebranded as TAB ACTIVE) continued to grow strongly. The result includes a full twelve months of revenue in Victoria, and nine months in NSW (where the service was successfully launched in October 2008). Close to 3.6 million bets were placed through the service during the year.
- The Way2Bet online and mobile betting information portal continued to perform strongly and meet expectations.

- Operating costs (before depreciation and amortisation and abnormal items) were \$2.90m, an improvement of \$1.55m or 35% on the previous year. This reflects a sustained focus on cost reduction, with a number of significant savings on prior year achieved across a number of key lines. Of particular note were: licence fees down \$0.6m or 67%; staff costs down \$0.57m or 25%; consultants' costs down \$0.26m or 73%; and administration and other costs down \$0.16m or 20%.

BUSINESS STRATEGIES AND PROSPECTS

Two Way creates advanced interactive media and gambling applications. Our competitive strengths include our specialised expertise, patented technology, and library of interactive applications, which can be deployed on TV, mobile or internet.

Two Way has developed an award winning interactive TV wagering service with Tabcorp Holdings Limited (ASX:TAH) and Foxtel, with the potential to establish similar relationships with other wagering and broadcasting partners throughout Australia and overseas.

Our interactive wagering technology offers advanced betting features and related information, and utilises the latest synchronisation techniques to enhance the user experience. This technology can be applied to both racing and sports betting applications.

Our Way2Bet wagering portal offers an extensive range of information resources to help punters bet better. These services are available via online and mobile devices at www.way2bet.com.au and way2bet.mobi.

Our Way2Play casual games portal complements and extends our interactive TV games channels.

Two Way's products are currently being deployed by leading wagering and interactive TV operators in Australia and New Zealand. Our clients include Tabcorp, Foxtel, Austar and Sky New Zealand.

Except as noted above, information on the economic entity's business strategies and prospects for future financial years has not been included in this report because the Directors believe it would likely result in unreasonable prejudice to the economic entity.

FINANCIAL POSITION

The net assets of the economic entity have decreased by \$4,148,616 (from \$6,685,765 at 30 June 2008 to \$2,537,149 at 30 June 2009). The non-cash impairment charge of \$2.47m to the carrying value of the prepaid wagering fee, in line with the strict adoption of *AASB136 – Impairment of Assets*, was the key driver for the decrease. Reduced investment income and the funding of normal operations also contributed to the decrease.

The group's working capital, being current assets less current liabilities was \$622,701 (2008: \$1,064,486). Funding of operations, and in particular, costs directly relating to the TV wagering service, accounted for much of the reduction.

DIVIDENDS PAID OR RECOMMENDED

No dividends were paid during the financial year. The Directors do not recommend the payment of a dividend.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

AFTER BALANCE DATE EVENTS

No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the economic entity, the results of those operations or the state of affairs of the economic entity in future financial years.

DIRECTORS' MEETINGS

During the financial year, 13 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

	Board Meetings		Audit and Risk Management Committee Meetings		Nominations, Remuneration and Corporate Governance Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
S J McGregor	11	11	2	2	–	–
B P Reichel	11	11	–	–	–	–
C F Connelly	11	7	2	2	–	–
C R Grant-Foster	11	10	–	–	–	–

DIRECTORS' INTERESTS

The relevant interest of each director in securities of the Company at the date of this report is as follows:

	Fully Paid Ordinary Shares	Options	Total
S J McGregor	881,000	–	881,000
B P Reichel	1,055,000	390,000 ¹	1,445,000
C F Connelly	2,242,953	–	2,242,953
C R Grant-Foster	350,000	–	350,000

1: Represents options that have fully vested as at the date of this report. A further 360,000 options are yet to vest. Refer the Remuneration Report for further details.

REMUNERATION REPORT

This report details the Board's policy for determining the nature and amount of remuneration of directors and executives (including secretaries and senior managers) of the Company.

The Board has an established Nominations, Remuneration and Corporate Governance Committee, consisting of non-executive directors, which is responsible for setting the overall remuneration policy and guidelines for the Company. The Committee seeks guidance from professional external remuneration consultants when required. Whilst the Committee did not meet during the year, the Board of Directors has taken on this responsibility as required.

The Company's non-executive directors receive director's fees at a market level designed to remunerate them for their time, commitment and responsibilities, including their participation in Board Committees. The non-executive director fees in aggregate are well within the \$450,000 limit for director's fees (inclusive of superannuation) approved by the Company's shareholders at the 2004 Annual General Meeting. There are no bonuses payable to non-executive directors, and there are no termination payments for non-executive directors on retirement from office, other than statutory superannuation entitlements.

Non-executive directors are not granted options. All directors hold shares in the Company.

In relation to the Company's executives, the Company's remuneration policy is to ensure that executive remuneration packages properly reflect a person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating executives of the highest calibre. As a result, remuneration packages for the Managing Director/Chief Executive Officer and senior executives include both fixed and performance-based remuneration. Base salary is determined by considering the scope of the executive's responsibility, importance to the business, competitiveness in the market, and assessed potential. Performance-based remuneration consists of grants of options under the Company's Option Plan, and the payment of cash bonuses. The total remuneration package for executives includes superannuation and other non-cash benefits to reflect the total employment cost to the Company, inclusive of any fringe benefits tax.

There have been no salary increases for executives for more than two years, since the current team was appointed in July 2007.

Employees may be offered participation in the Company's Option Plan. This plan aims to assist in retention of employees, and to provide a direct link between the individual's remuneration and the long term performance of the Company. The values of the options issued to executives during the 2009 financial year, and the terms and conditions applicable to them, are disclosed below.

Cash bonuses, as detailed in the tables of this report, can be payable if key performance indicators are met. KPIs have been based on the launch of the wagering service and exceeding budgeted targets.

All remuneration paid to Directors and executives is valued at cost to the Company and expensed.

The remuneration of the Managing Director/Chief Executive Officer is reviewed by the Board, acting on the advice of the Nominations, Remuneration and Corporate Governance Committee. The remuneration of senior executives is reviewed by the Chief Executive Officer and by the Board.

The Board considers that the remuneration policies adopted have been successful in attracting, retaining and motivating talented staff who are required to manage and operate the Company as a listed public entity.

DETAILS OF REMUNERATION FOR YEAR ENDED 30 JUNE 2009

(A) NAMES AND POSITIONS HELD OF ECONOMIC AND PARENT ENTITY KEY MANAGEMENT PERSONNEL IN OFFICE AT ANY TIME DURING THE FINANCIAL YEAR

Directors

Mr S J McGregor – Chairman – Non-Executive Director
 Mr C F Connolly – Non-Executive Director
 Mr B P Reichel – Managing Director & Chief Executive Officer
 Mr C R Grant-Foster – Non-Executive Director

Executives

Mr R G Nugara – Company Secretary & Head of Finance & Administration
 Mr G J Kean – General Manager, Products and Services
 Mr F R Magrini – Chief Technology Officer

(B) KEY MANAGEMENT PERSONNEL COMPENSATION

	Short Term Benefits			Post employment benefits	Other long term benefits	Termination Benefits	Share Based payments		Total	Percentage of Remuneration that consists of Options
	Gross Salary Fees and Commission ¹	Bonus	Non-monetary benefits	Super-annuation			Options	Shares		
<i>ij Specified Directors</i>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
2009										
Mr S J McGregor (Non-executive)	91,800	–	–	8,262	–	–	–	–	100,062	0.0%
Mr C F Connolly (Non-executive)	45,900	–	–	4,131	–	–	–	–	50,031	0.0%
Mr B P Reichel (Managing Director & CEO)	300,000	50,000	–	31,500	–	–	14,740	–	396,240	3.7%
Mr C R Grant-Foster (Non-executive)	45,900	–	–	4,131	–	–	–	–	50,031	0.0%
Total	483,600	50,000	0	48,024	0	0	14,740	0	596,364	
2008										
Mr S J McGregor (Non-executive)	88,604	–	–	7,974	–	–	–	–	96,578	0.0%
Mr C F Connolly (Non-executive)	40,500	–	–	3,645	–	–	–	–	44,145	0.0%
Mr B P Reichel (Managing Director & CEO)	299,323	–	–	26,939	–	–	25,500	–	351,762	7.2%
Mr C R Grant-Foster (Non-executive) ²	36,000	–	–	3,240	–	–	–	–	39,240	0.0%
Mr J A Mantello (Non-executive) ³	4,500	–	–	–	–	–	–	–	4,500	0.0%
Total	468,927	0	0	41,798	0	0	25,500	0	536,225	

1. Non-executive Directors' remuneration represents fees in connection with attending Board meetings and Board Committee meetings.

2. Reflects payments to Mr C R Grant-Foster in his capacity as a director, commencing 20 July 2007.

3. Mr J A Mantello retired from office on 20 July 2007.

(B) KEY MANAGEMENT PERSONNEL COMPENSATION (CON'T.)

	Short Term Benefits			Post employment benefits	Other long term benefits	Termination Benefits	Share Based payments		Total	Percentage of Remuneration that consists of Options
	Gross Salary Fees and Commission	Bonus	Non-monetary benefits ¹	Super-annuation			Options	Shares		
<i>ii) Specified Executives</i>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
2009										
Mr R G Nugara	144,375	–	–	12,994	–	–	6,780	–	164,149	4.1%
Mr G J Kean	136,558	–	16,474	12,549	–	–	10,613	–	176,194	6.0%
Mr F R Magrini	154,128	–	–	13,872	–	–	8,844	–	176,844	5.0%
Total	435,061	0	16,474	39,415	0	0	26,237	0	517,187	
2008										
Mr C R Grant-Foster ²	12,115	–	–	2,177	–	194,390	–	–	208,682	0.0%
Mr M J Kennedy (resigned 30 April 2008)	134,615	–	–	14,521	–	54,136	–	–	203,272	0.0%
Mr R G Nugara	144,375	–	–	12,994	–	–	7,650	–	165,019	4.6%
Mr G J Kean	129,362	10,338	20,618	12,573	–	–	5,100	–	177,991	2.9%
Mr F R Magrini	154,128	15,477	–	15,264	–	–	9,180	–	194,049	4.7%
Total	574,595	25,815	20,618	57,529	0	248,526	21,930	0	949,013	

1. Reflects provision of a fully serviced motor vehicle.

2. Reflects payments to Mr C R Grant-Foster in his capacity as an executive, ceasing 20 July 2007.

(C) OPTIONS GRANTED AS COMPENSATION

	Grant Details				Value per Option at Grant Date	Terms & Conditions of Each Grant		
	Option Series	Grant Date	No.	Value		Exercise Price	First Exercise Date	Last Exercise Date
Specified Directors					\$	\$	\$	
Mr S J McGregor		–	–	–	–	–	–	–
Mr C F Connelly		–	–	–	–	–	–	–
Mr C R Grant-Foster		–	–	–	–	–	–	–
Mr B P Reichel	Series A	01.07.2008	140,000	10,220	0.073	0.073	30.06.2009	30.06.2011
	Series B	Refer Table 1	360,000	4,520	Refer Table 1 for further details about Series B			
Specified Executives								
Mr R G Nugara	Series A	01.07.2008	64,400	4,701	0.073	0.073	30.06.2009	30.06.2011
	Series B	Refer Table 1	165,600	2,079	Refer Table 1 for further details about Series B			
Mr G J Kean	Series A	01.07.2008	100,800	7,358	0.073	0.073	30.06.2009	30.06.2011
	Series B	Refer Table 1	259,200	3,254	Refer Table 1 for further details about Series B			
Mr F R Magrini	Series A	01.07.2008	84,000	6,132	0.073	0.073	30.06.2009	30.06.2011
	Series B	Refer Table 1	216,000	2,712	Refer Table 1 for further details about Series B			
Total			1,390,000	40,976				

The fair value of options granted is calculated by valuing the options as at their grant date and allocating the value equally over the period from grant date to vesting date. For options granted under the 2008 Options Plan, the value per option at grant date was calculated as the volume weighted average (VWAP) price for shares in the Company traded on the ASX in the 30 day period prior to grant date. The exercise price is equal to the value per option at grant date. The 2008 Options Plan comprises two components: Series A and Series B. Series A options (28% of total) were granted on 1 July 2008 and vested on 30 June 2009. Series B options (72% of total) were granted progressively over the 2009 financial year, with 6% of the total being granted on the first day of each month during the year, commencing 1 July 2008. These options will vest two years after each grant date. Series A and B options expire two years after each vesting date. Table 1 below provides further details of the Series B options issued during the year.

Table 1 Series B Options

Grant Date	Exercise Price \$	First Exercise Date	Last Exercise Date	Grant Date	Exercise Price \$	First Exercise Date	Last Exercise Date
01/07/2008	0.072	01/07/2010	01/07/2012	01/01/2009	0.034	01/01/2011	01/01/2013
01/08/2008	0.066	01/08/2010	01/08/2012	01/02/2009	0.029	01/02/2011	01/02/2013
01/09/2008	0.060	01/09/2010	01/09/2012	01/03/2009	0.025	01/03/2011	01/03/2013
01/10/2008	0.033	01/10/2010	01/10/2012	01/04/2009	0.020	01/04/2011	01/04/2013
01/11/2008	0.038	01/11/2010	01/11/2012	01/05/2009	0.018	01/05/2011	01/05/2013
01/12/2008	0.037	01/12/2010	01/12/2012	01/06/2009	0.021	01/06/2011	01/06/2013

There are no service and performance criteria to be met in determining the vesting of remuneration options. However, options will expire 12 months after termination of employment, if not exercised during that period.

(D) OPTIONS & RIGHTS HOLDINGS

Number of Options held by Key Management Personnel

	Balance 01.07.08	Granted as Compensation	Options Exercised	Options Cancelled or Lapsed	Net Change Other	Balance 30.06.09	Total Vested 30.06.09	Total Exercisable 30.06.09	Total Un-exercisable 30.06.09
Specified Directors									
Mr S J McGregor	–	–	–	–	–	–	–	–	–
Mr C F Connelly	–	–	–	–	–	–	–	–	–
Mr B P Reichel	250,000	500,000	–	–	–	750,000	390,000	390,000	360,000
Mr C R Grant-Foster	250,000	–	–	(250,000)	–	–	–	–	–
Specified Executives									
Mr R G Nugara	75,000	230,000	–	–	–	305,000	139,400	139,400	165,600
Mr G J Kean	50,000	360,000	–	–	–	410,000	150,800	150,800	259,200
Mr F R Magrini	90,000	300,000	–	–	–	390,000	174,000	174,000	216,000
Total	715,000	1,390,000	–	(250,000)	–	1,855,000	854,200	854,200	1,000,800

(E) SHAREHOLDINGS

Number of Shares held by Key Management Personnel

	Balance 01.07.08	Received as Compensation	Options Exercised	Net Change Other ¹	Balance 30.06.09
Specified Directors					
Mr S J McGregor	381,000	–	–	500,000	881,000
Mr C F Connelly	1,037,953	–	–	1,250,000	2,287,953
Mr C R Grant-Foster	100,000	–	–	250,000	350,000
Mr B P Reichel	555,000	–	–	500,000	1,055,000
Specified Executives					
Mr R G Nugara	–	–	–	–	–
Mr G J Kean	–	–	–	–	–
Mr F R Magrini	–	–	–	–	–
Total	2,073,953	–	–	2,500,000	4,573,953

1. Net change Other refers to shares purchased, sold and transferred as well as share entitlements exercised. Shareholdings include those held directly, indirectly or beneficially by each key management personnel, including their personally-related entities.

EMPLOYMENT CONTRACTS OF DIRECTORS AND SENIOR EXECUTIVES

The employment conditions of the Chief Executive Officer and Managing Director, Mr Reichel, and the specified executives are formalised in contracts of employment. Mr Reichel's contract has no fixed term, but can be terminated by either party by giving six months' written notice, or (in the Company's case) paying six months' salary. The Company can terminate immediately at any time if the CEO commits a serious breach of the agreement, is guilty of serious misconduct, becomes bankrupt or is charged with a criminal offence, or significantly neglects his duties.

The specified executives are employed under contracts with no fixed term. The Company may terminate the contracts immediately if the executive is guilty of serious misconduct or wilful neglect of duties. Otherwise, the Company may terminate the contracts by giving three months' notice or paying three months' salary.

OPTIONS

During the year ended 30 June 2009, there were no shares of the Company issued on the exercise of options granted under the Company's Option Plans. No further shares have been issued since that date as a result of the exercise of options. No amounts are unpaid on any of the shares. No person entitled to exercise an option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

INDEMNIFICATION AND INSURANCE

Pursuant to its Constitution, the Company indemnifies every current and former officer of the Company or its subsidiaries (to the extent permitted by law) against:

- (a) liabilities incurred by that person, as an officer of the Company, to another person (other than the Company or its related bodies corporate); and
- (b) liabilities for costs and expenses incurred by that person in defending any such proceedings, or in responding to actions taken by government agencies.

The Company has executed a Deed of Access and Indemnity in favour of each of its Directors. The Deed grants an indemnity to Directors and gives the directors the right of access to Board papers.

During the financial year the Company paid premiums for Directors' and Officers' Liability insurance in respect of Directors and executive officers of the Company and its controlled entities as permitted by the Corporations Act 2001. Details of the premium paid are confidential under the contract of insurance.

ENVIRONMENTAL ISSUES

The economic entity's operations are not subject to any particular and significant environmental regulation under the law of the Commonwealth and States.

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 party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

The board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not

compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants as set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2009: Taxation services – \$21,675.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2009 in accordance with s307C of the Corporations Act has been received and can be found on page 17.

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

A handwritten signature in black ink, appearing to read 'S. McGregor', written in a cursive style.

Mr. S. McGregor
Director

Date 16 September 2009

AUDITOR'S INDEPENDENCE DECLARATION

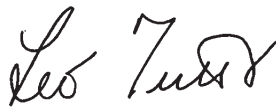
William Buck
Business Advisors
Chartered Accountants

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001
TO THE DIRECTORS OF TWO WAY LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2009 there have been:

- a. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review, and
- b. no contraventions of any applicable code of professional conduct in relation to the review.

William Buck
Chartered Accountants



L. E. Tutt
Partner
Sydney, 16 September 2009

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INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

	Note	Economic Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
Revenue	2	1,465,751	1,274,892	1,225,496	896,543
Employee benefits expense		(1,743,532)	(2,316,437)	(1,723,083)	(2,208,395)
Depreciation and amortisation	3	(1,220,243)	(355,038)	(1,220,243)	(339,109)
Finance costs	3	–	(26,338)	–	(26,338)
Professional and consulting fees		(93,012)	(347,805)	(31,344)	(66,826)
Travel		(25,914)	(39,255)	(25,914)	(36,077)
Licence fees		(282,737)	(856,637)	(218,272)	(763,731)
Marketing & promotions		(123,998)	(76,783)	(79,521)	(55,514)
Administration expenses		(435,950)	(381,269)	(422,804)	(353,154)
Provision for non-recoverability of loan to subsidiary		–	–	(304,232)	(152,482)
Other expenses from ordinary activities	3	(195,913)	(406,599)	(189,207)	(370,548)
Realised loss on sale of deposits at call		–	(791,619)	–	(791,619)
Impairment of assets		(2,465,817)	–	(2,465,817)	–
Loss before tax		(5,121,365)	(4,322,888)	(5,454,941)	(4,267,250)
Income tax expense	4	(24,393)	(58,988)	–	–
NET LOSS		(5,145,758)	(4,381,876)	(5,454,941)	(4,267,250)
Basic loss per share (cents per share)	6	(4.23)	(4.63)		
Diluted loss per share (cents per share)	6	(4.23)	(4.63)		

The accompanying notes form part of these financial statements.

BALANCE SHEETS

FOR THE YEAR ENDED 30 JUNE 2009

	Note	Economic Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
CURRENT ASSETS					
Cash	7	954,756	1,540,339	908,104	1,535,522
Trade and other receivables	8	188,198	137,218	174,713	323,958
Other	10	61,223	54,032	54,923	49,270
TOTAL CURRENT ASSETS		1,204,177	1,731,589	1,137,740	1,908,750
NON-CURRENT ASSETS					
Plant and equipment	9	140,155	235,138	140,155	235,138
Investment in subsidiary		-	-	90	90
Prepaid wagering fee	11	1,827,522	5,413,334	1,827,522	5,413,334
TOTAL NON-CURRENT ASSETS		1,967,677	5,648,472	1,967,767	5,648,562
TOTAL ASSETS		3,171,854	7,380,061	3,105,507	7,557,312
CURRENT LIABILITIES					
Trade and other payables	12	428,566	530,596	519,581	556,027
Provisions	13	152,910	136,507	152,910	136,507
TOTAL CURRENT LIABILITIES		581,476	667,103	672,491	692,534
NON-CURRENT LIABILITIES					
Provisions	13	53,229	27,193	53,229	27,193
TOTAL NON-CURRENT LIABILITIES		53,229	27,193	53,229	27,193
TOTAL LIABILITIES		634,705	694,296	725,720	719,727
NET ASSETS		2,537,149	6,685,765	2,379,787	6,837,585
EQUITY					
Contributed equity	14	47,212,380	46,220,607	47,212,370	46,220,596
Reserves	15	114,879	109,510	114,879	109,510
Accumulated losses		(44,790,110)	(39,644,352)	(44,947,462)	(39,492,521)
TOTAL EQUITY		2,537,149	6,685,765	2,379,787	6,837,585

The accompanying notes form part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2009

	Note	Contributed Equity \$	Retained Profits \$	Share Issue Expense Reserve \$	Employee Options Reserve \$	Total \$
Economic Entity						
Balance at 1 July 2007		52,908,875	(35,701,069)	(7,674,698)	602,762	10,135,870
Shares issued during the year		1,050,075	-	-	-	1,050,075
Loss attributable to members of parent entity		-	(4,381,876)	-	-	(4,381,876)
Employee share options issued		-	-	-	108,764	108,764
Employee share options lapsed/cancelled		-	438,593	-	(602,016)	(163,423)
Share issue expense		-	-	(63,645)	-	(63,645)
Balance at 30 June 2008		53,958,950	(39,644,352)	(7,738,343)	109,510	6,685,765
Balance at 1 July 2008		53,958,950	(39,644,352)	(7,738,343)	109,510	6,685,765
Shares issued during the year		1,091,921	-	-	-	1,091,921
Loss attributable to members of parent entity		-	(5,145,758)	-	-	(5,145,758)
Employee share options issued		-	-	-	61,281	61,281
Employee share options lapsed/cancelled		-	-	-	(55,912)	(55,912)
Share issue expense		-	-	(100,148)	-	(100,148)
Balance at 30 June 2009		55,050,871	(44,790,110)	(7,838,491)	114,879	2,537,149
Parent Entity						
Balance at 1 July 2007		52,908,874	(35,663,864)	(7,674,698)	602,762	10,173,074
Shares issued during the year		1,050,065	-	-	-	1,050,065
Loss attributable to members of parent entity		-	(4,267,250)	-	-	(4,267,250)
Employee share options issued		-	-	-	108,764	108,764
Employee share options lapsed/cancelled		-	438,593	-	(602,016)	(163,423)
Share issue expense		-	-	(63,645)	-	(63,645)
Balance at 30 June 2008		53,958,939	(39,492,521)	(7,738,343)	109,510	6,837,585
Balance at 1 July 2008		53,958,939	(39,492,521)	(7,738,343)	109,510	6,837,585
Shares issued during the year		1,091,922	-	-	-	1,091,922
Loss attributable to members of parent entity		-	(5,454,941)	-	-	(5,454,941)
Employee share options issued		-	-	-	61,281	61,281
Employee share options lapsed/cancelled		-	-	-	(55,912)	(55,912)
Share issue expense		-	-	(100,148)	-	(100,148)
Balance at 30 June 2009		55,050,861	(44,947,462)	(7,838,491)	114,879	2,379,787

The accompanying notes form part of these financial statements.

CASHFLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

	Note	Economic Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,459,505	1,047,128	1,123,981	682,070
Payments to suppliers and employees		(3,085,059)	(4,477,025)	(2,790,919)	(4,093,788)
Interest received		53,895	166,238	53,544	165,825
Finance costs		–	(26,338)	–	(26,260)
Prepaid wagering fee		–	(2,520,000)	–	(2,520,000)
Net cash used in operating activities	18	(1,571,659)	(5,809,997)	(1,613,394)	(5,792,154)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of plant and equipment		(5,697)	(232,032)	(5,797)	(232,033)
Purchase of short term deposits		–	(6,000,000)	–	(6,000,000)
Proceeds from disposal of short term deposits		–	5,242,181	–	5,242,181
Net cash used in investing activities		(5,697)	(989,851)	(5,797)	(989,852)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from share placement		1,091,921	1,050,075	1,091,921	1,050,065
Proceeds from borrowings		–	677,630	–	677,630
Repayment of borrowings		–	(677,630)	–	(677,630)
Payment of share issue expense		(100,148)	(63,645)	(100,148)	(63,645)
Net cash provided by (used in) financing activities		991,773	986,430	991,773	986,420
Net increase (decrease) in cash and cash equivalents held		(585,583)	(5,813,418)	(627,418)	(5,795,586)
Cash & cash equivalents at the beginning of the year		1,540,339	7,353,757	1,535,522	7,331,108
Cash and cash equivalents at the end of the year	7	954,756	1,540,339	908,104	1,535,522

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, (including Australian Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the economic entity of Two Way Limited and controlled entities ('Group' or 'Economic Entity'), and Two Way Limited as an individual parent entity ('Company'). Two Way Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Two Way Limited and controlled entities, and Two Way Limited as an individual parent entity, complies with all International Financial Reporting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

The financial statements were authorised for issue by the directors pursuant to a resolution on 16 September 2009.

Basis for Preparation

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

a. *Principles of Consolidation*

A controlled entity is any entity controlled by Two Way Limited. Control exists where Two Way Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Two Way Limited to achieve the objectives of Two Way Limited. A list of controlled entities is contained in Note 19 to the financial statements.

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

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

b. *Income Tax*

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be 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 is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that

may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

c. *Plant and Equipment*

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

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

Depreciation – the depreciable amount of all fixed assets is depreciated using the straight line method over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rate used for plant and equipment is 33%.

Leases – 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.

d. *Cash and Cash Equivalents*

Cash on hand and in banks and short term deposits are carried at face value of the amounts deposited or drawn.

For the purpose of the Cash Flow Statement, cash includes cash on hand and in banks, short term deposits and money market investments readily convertible to cash within two working days and not subject to significant changes in value, net of outstanding bank overdrafts.

e. *Use of Estimates and Judgements*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The recoverable amount of the prepaid wagering fee has been determined based on value-in-use calculations. These calculations require the use of assumptions and are detailed at Note 11.

f. *Impairment of Non-Financial Assets*

At each reporting date, the group reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired. Where 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 the income statement.

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 which the asset belongs.

g. *Comparative Figures*

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

h. *Revenue*

Revenue from the rendering of a service or delivery of goods is recognised upon the delivery of the service or

goods to the customers, which is the date of transfer of risks and rewards.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. All revenue is stated net of the amount of goods and services tax (GST).

i. *Financial Assets*

Financial assets are divided into the following categories:

- loans and receivables;
- financial assets at fair value through profit or loss – none of these assets held at 30 June 2009 or 30 June 2008;
- available-for-sale financial assets – none of these assets held at 30 June 2009 or 30 June 2008; and
- held-to-maturity investments – none of these assets held at 30 June 2009 or 30 June 2008.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant to the way it is measured and whether any resulting income and expenses are recognised in profit or loss or directly in equity.

Generally, the Group recognises all financial assets using settlement day accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expenses relating to financial assets are recognised in the income statement line item "finance income" or "finance costs" respectively.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers but also incorporate other types of contractual monetary assets.

After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. The Group's trade and most other receivables fall into this category or financial instruments. Discounting is omitted where the effect of discounting is considered immaterial. Significant receivables are considered for impairment on a case-by-case basis when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default.

j. *Financial Liabilities*

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities depending on the purpose for which the liability was acquired. The Group's financial liabilities are trade and other payables, which are measured at amortised cost using the effective interest rate method.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the income statement line items, "finance costs" or "finance income".

k. *Foreign Currency Transactions and Balances*

Functional & 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.

Exchange differences arising on the translation of monetary items are recognised in the income statement.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the income statement.

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 profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

l. Employee Benefits

Provision is made for the economic entity's liability for employee benefits from services rendered by employees to balance date. Employee benefits expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. 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.

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as employee benefits expense in profit and loss.

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

n. Going Concern

For the year ended 30 June 2009 the economic entity has incurred a loss of \$5,145,758 (2008: loss of \$4,381,876), including a non-cash impairment loss of \$2,465,817. Net cash outflows from operating activities were \$1,573,236 (2008: \$5,809,997); and current cash at bank and on hand as at 30 June 2009 is \$954,756 (2008: \$1,540,339). These factors create a significant uncertainty regarding the economic entity's ability to continue as a going concern. Under the requirements of Australian Accounting Standards, the Directors have reviewed whether the economic entity can continue to operate as a going concern by preparing cash flow projections and assessing the economic entity's ability to realise its assets and settle its liabilities in the normal course of business and for at least the amounts stated. Following this review the Directors believe that further capital-raising may be required within the next 12 months to meet the economic entity's obligations.

The Directors have prepared the financial report on a going concern basis given the following:

- Continued growth of the Company's TV wagering service in both NSW and Victoria;
- Formal regulatory approval to launch the TV wagering service in Western Australia; and continued efforts to obtain regulatory approval in other jurisdictions;
- The substantial cost savings achieved in the 2008/09 and prior years, which are expected to have a significant flow on effect in the 30 June 2010 and subsequent financial years; reinforced by a continued focus on minimising discretionary spend;
- No further upfront fees to be paid with regard to further deployment of the TV wagering service; and
- Based on the factors above, the Directors expect the economic entity will be successful in raising further capital as required.

Notwithstanding the material uncertainties of future events inherent in the above, the Directors consider it is appropriate to prepare the financial statements on a going concern basis and hence no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary if the entity does not continue as a going concern.

o. *New Standards and Interpretations not yet adopted*

The 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. A discussion of those future requirements and their impact on the Group follows:

- AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1,2,4,5,7,101,107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Group will be unable to be determined. The following changes to accounting requirements are included:
- AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's Board for the purposes of decision making.
- AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group.
- AASB 2008-1: Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.
- AASB 2008-13: Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110] (applicable for annual reporting periods commencing from 1 July 2009). This amendment requires that non-current assets held for distribution to owners to be measured at the lower of carrying value and fair value less costs to distribute.
- AASB Interpretation 16: Hedges of a Net Investment in a Foreign Operation (applicable for annual reporting periods commencing from 1 October 2008). Interpretation 16 applies to entities that hedge foreign currency risk arising from net investments in foreign operations and that want to adopt hedge accounting. The interpretation provides clarifying guidance on several issues in accounting for the hedge of a net investment in a foreign operation and is not expected to impact the Group.
- AASB Interpretation 17: Distributions of Non-cash Assets to Owners (applicable for annual reporting periods commencing from 1 July 2009). This guidance applies prospectively only and clarifies that non-cash dividends payable should be measured at the fair value of the net assets to be distributed where the difference between the fair value and carrying value of the assets is recognised in profit or loss.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

	Note	Economic Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$

NOTE 2: REVENUE

Revenue from operating activities

– Service revenue	1,418,105	1,079,523	1,178,194	701,590
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Revenue from non-operating activities

– Interest – other persons	47,646	195,369	47,302	194,953
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Total revenue	1,465,751	1,274,892	1,225,496	896,543
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NOTE 3: LOSS FROM OPERATING ACTIVITIES

Loss from operating activities before income tax has been determined after:

(a) Expenses

Depreciation and amortisation of non-current assets

– Plant and equipment	100,247	168,373	100,247	152,444
– Amortisation of prepaid wagering fee	1,119,996	186,665	1,119,996	186,665
	1,220,243	355,038	1,220,243	339,109

(b) Finance Costs

– Short term loan establishment fee	–	20,000	–	20,000
– Interest on short term loan	–	6,338	–	6,338
	–	26,338	–	26,338

(c) Other expenses from ordinary activities

Rental expenses on operating lease

– Minimum lease payments	92,423	139,648	92,423	125,150
Net (gain)/loss on disposal of plant & equipment	–	(1,522)	–	645
Foreign currency translation loss (gain)	1,496	16,192	10	119
Accounting and other services	19,000	18,528	14,500	14,257
Audit fees	37,300	43,641	37,300	42,730
Other	45,694	190,112	44,974	187,647
	195,913	406,599	189,207	370,548

	Note	Economic Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$

NOTE 4: INCOME TAX EXPENSE

Prima facie income tax/(credit) calculated on the operating loss ¹		(1,536,409)	(1,296,866)	(1,636,482)	(1,280,174)
Add tax effect of:					
Share-based payments		1,611	(147,976)	1,611	(147,976)
Other non-deductible items		(276,549)	(287,578)	(185,280)	(291,682)
Add deferred tax asset not brought to account ²		1,835,740	1,791,408	1,820,151	1,719,832
Income tax attributable to subsidiary ³		24,393	58,988	–	–

1: The prima facie income tax rates of the economic entity vary due to differing tax rates of those group entities operating in overseas jurisdictions. The parent entity income tax rate is 30%.

2: The tax losses do not expire under current tax legislation; deferred tax assets have not been recognised because it is not probable that future taxable profit will be available against which the economic entity can utilise the benefits.

3: Two Way Limited and its subsidiaries have not formed a consolidated group for income tax purposes.

NOTE 5: AUDITOR'S REMUNERATION

Parent entity

Remuneration of the auditor of the parent entity – William Buck NSW (prior year Grant Thornton VIC):

– auditing or reviewing of the financial accounts	37,300	42,730	37,300	42,730
– Other services	21,675	–	21,675	–

Subsidiary

Remuneration of the auditor or other auditors of subsidiary for:

– auditing or reviewing of the financial report	–	911	–	–
– Other services	–	–	–	–
	59,875	43,641	59,875	42,730

	Note	Economic Entity	
		2009 \$	2008 \$

NOTE 6: LOSS PER SHARE

Net (Loss)/Earnings used in the calculation of basic EPS	(5,145,758)	(4,381,876)
Net (Loss)/Earnings used in the calculation of diluted EPS	(5,145,758)	(4,381,876)
	Number	Number
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	121,756,659	94,583,018
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	121,756,659	94,583,018

Classification of Securities

The ownership-based remuneration scheme with 2,470,000 options remaining unconverted at year-end is not included in the calculation of basic or diluted EPS as the issue of shares is contingent upon future events. As at reporting date, conditions which would result in the issue of shares had not been satisfied (*refer to Note 22*).

	Note	Economic Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$

NOTE 7: CASH ASSETS

Cash on hand and at bank		954,756	1,540,339	908,104	1,535,522
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NOTE 8: TRADE AND OTHER RECEIVABLES

CURRENT

Trade debtors		185,510	128,282	140,460	73,318
Other debtors					
Interest receivable		2,688	8,936	2,688	8,936
Amounts receivable from wholly-owned subsidiaries		–	–	335,797	394,186
Provision for non-recoverability of receivable from subsidiary		–	–	(304,232)	(152,482)
Total current receivables		188,198	137,218	174,713	323,958

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short term nature of the balances. The average credit period on sales of services is 30 days.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements. The Group does not hold any collateral as security over any receivable balance, nor does it hold any restrictions of title. Refer to note 24 for more information on the risk management policy of the Group.

NOTE 9: PLANT AND EQUIPMENT

At cost		613,883	608,620	613,883	608,620
Accumulated depreciation		(473,728)	(373,482)	(473,728)	(373,482)
		140,155	235,138	140,155	235,138

Movements in carrying amounts

Balance at beginning of year		235,138	224,660	235,138	208,730
Additions		5,264	178,851	5,264	178,851
Disposals		–	(51,958)	–	(45,125)
Depreciation expense		(100,247)	(116,415)	(100,247)	(107,318)
Carrying amount at the end of the year		140,155	235,138	140,155	235,138

NOTE 10: OTHER ASSETS

CURRENT

Bonds and security deposits		18,421	18,421	18,421	18,421
GST receivable		–	5,447	–	688
Prepayments		42,802	30,164	36,502	30,161
		61,223	54,032	54,923	49,270

	Note	Economic Entity		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$

NOTE 11: PREPAID WAGERING FEE

Cost		5,600,000	5,600,000	5,600,000	5,600,000
Accumulated amortisation	(a)	(1,306,661)	(186,666)	(1,306,661)	(186,666)
Impairment loss booked	(b)	(2,465,817)	–	(2,465,817)	–
Carrying amount at the end of the year		<u>1,827,522</u>	<u>5,413,334</u>	<u>1,827,522</u>	<u>5,413,334</u>

(a) The Company commenced to progressively write off the prepaid wagering fee upon the commercial launch of the TAB ACTIVE service on 28 April 2008. The fee write-off, which was classified as cost of sales in the June 2008 annual report, has been reclassified to amortisation expense in the full year to 30 June 2009 income statement. Furthermore, the initial write-off was based on a percentage of revenue. This was subsequently changed to straight line over the term of the TAB ACTIVE agreement, which expires in April 2013. The impact of these changes on the comparative balances is an increase in retained losses of \$169,995 at 30 June 2008.

(b) In accordance with the provisions of *AASB 136 Impairment of Assets*, the Company has reviewed the carrying value of the prepaid wagering fee at the reporting date to determine whether there is any indication of impairment. Where 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 in the asset's carrying value over its recoverable amount is expensed to the income statement. An impairment test was conducted based on the internal financial projections prepared by the Company (which are in turn based on best-estimate assumptions). The key assumptions used in the impairment test were as follows:

- Increase in revenues for NSW and Victoria on the Foxtel platform based on recent run rates; the expected impact of increased promotional activity; growth in average bet size; number of bets placed; and projected growth in the take up of the service by both Tabcorp and Foxtel customers.
- Cash flow projections are to the end of the initial 5 year term of the interactive wagering agreement.
- Annual inflation factor of 3.0% per annum for most cost lines.
- Discount rate of 11.36%

The Directors have assessed that the recoverable amount of the prepaid wagering fee under the provisions of AASB136: Impairment is \$1,827,522, resulting in a non-cash impairment loss of \$2,465,817, which has been recognised at the reporting date. The Directors remain confident that the carrying value of the prepaid wagering fee at 30 June 2009 will be fully recovered from TV wagering revenues within the term of the initial contract with Foxtel.

NOTE 12: TRADE AND OTHER PAYABLES

CURRENT

Trade creditors	98,067	180,913	81,913	180,913
Sundry creditors and accrued expenses	330,499	349,683	298,005	298,902
Amounts owed to wholly-owned subsidiary	–	–	139,663	76,212
	<u>428,566</u>	<u>530,596</u>	<u>519,581</u>	<u>556,027</u>

All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

NOTE 13: PROVISIONS

CURRENT

Employee benefits	<u>152,910</u>	<u>136,507</u>	<u>152,910</u>	<u>136,507</u>
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NON-CURRENT

Employee benefits	<u>53,229</u>	<u>27,193</u>	<u>53,229</u>	<u>27,193</u>
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	Note	Economic Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$

NOTE 14: CONTRIBUTED EQUITY

	Number	Number	Number	Number
At the beginning of reporting period	109,192,090	90,100,000	109,192,090	90,100,000
Shares issued during the year				
19 March 2008	–	11,073,654	–	11,073,654
30 April 2008	–	8,018,436	–	8,018,436
8 April 2009	54,596,045	–	54,596,045	–
At reporting date	163,788,135	109,192,090	163,788,135	109,192,090

Ordinary shares participate in dividends and proceeds on winding up of the parent entity in proportion to the number of shares held.

At the 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.

Changes to the then Corporations Law abolished the authorised capital and par value concept on relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

NOTE 15: RESERVES

- a. **Share Issue Expense Reserve** – records costs incurred in relation to issuing of the new shares in the Company.
- b. **Options Reserve** – records items recognised as expenses on valuation of employee share options.

NOTE 16: OPERATING LEASE COMMITMENTS

Non-cancellable operating leases contracted for but not capitalised in the financial statements.

Payable:

– not later than 1 year	77,518	81,321	77,518	81,321
– later than 1 year but not later than 5 years	2,092	81,900	2,092	81,900
– later than 5 years	–	–	–	–
	79,610	163,221	79,610	163,221

The Company's property lease has an initial three year term, with rent payable in advance. An annual increase of 3.5% is applicable on the anniversary of the initial agreement. An option exists to renew the lease for a further three year term at the expiration of the initial lease term (15 July 2010). The Company is likely to exercise this option at the expiry of the initial term, however as this does not yet constitute a commitment, amounts payable beyond the initial term are not included above.

Other office equipment is covered by an operating lease due to expire in November 2009. The Company is yet to decide whether to renew the current photocopier lease for a further term or seek a new equipment lease. In either case, as no commitment has been made, amounts payable beyond the current term are not included above.

NOTE 17: SEGMENT REPORTING

Primary reporting – Business segments

The economic entity operates in a single business segment, being the management and development of interactive applications for television and other platforms.

Secondary reporting – Geographical segments

	Segment Revenues		Carrying Amount of Segment Assets		Acquisition of Non-current Segment Assets	
	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$
Australia/New Zealand	1,465,751	1,269,839	3,171,854	7,380,061	5,264	178,851
Asia	–	5,053	–	–	–	–
	<u>1,465,751</u>	<u>1,274,892</u>	<u>3,171,854</u>	<u>7,380,061</u>	<u>5,264</u>	<u>178,851</u>

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 and 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 accounts payable and accrued expenses.

Segment assets and liabilities do not include deferred income taxes.

	Note	Economic Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$

NOTE 18: CASH FLOW INFORMATION

Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax

Loss from ordinary activities after income tax	(5,145,758)	(4,381,876)	(5,454,941)	(4,267,250)
Non-cash flows in loss from ordinary activities				
Depreciation & amortisation	1,220,243	355,038	1,220,243	339,114
Net loss on disposal of plant & equipment	–	(1,522)	–	2,165
Foreign exchange loss	1,496	16,192	1,496	119
Impairment loss	2,465,817	–	2,465,817	–
Loss on sale of deposits at call	–	791,619	–	791,619
Provision for non-recoverability of loan to subsidiary	–	–	304,232	152,482
Share options expensed	5,369	(54,659)	5,369	(54,659)
Change in assets and liabilities				
(Increase)/decrease in receivables	(50,980)	62,057	(153,409)	(225,361)
(Increase)/decrease other assets	(7,191)	422,508	(5,653)	426,288
(Increase)/decrease in prepaid wagering fee	–	(2,800,000)	–	(2,800,000)
Increase/(decrease) in trade creditors and accruals	(103,094)	(236,728)	(38,987)	(174,045)
Increase/(decrease) in provisions	42,439	17,374	42,439	17,374
Cash Flow from Operations	<u>(1,571,659)</u>	<u>(5,809,997)</u>	<u>(1,613,394)</u>	<u>(5,792,154)</u>

	Country of Incorporation	Percentage owned (%)	
		2009	2008

NOTE 19: CONTROLLED ENTITIES

Parent entity:

Two Way Limited	Australia	–	–
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Subsidiaries of Two Way Limited:

Two Way TV Operations Pty Ltd	Australia	100%	100%
Way2Bet Pty Ltd	Australia	90%	90%
Holotype Pty Ltd (non-trading)	Australia	100%	100%
Two Way TV Asia Limited (deregistered in November 2007)	Hong Kong	–	100%

NOTE 20: CHANGE IN ACCOUNTING POLICIES

During the 2009 financial year, and in line with change in accounting policy in the previous financial year, any development expenditure has been expensed directly to the profit and loss.

The disclosures below, therefore relate to the impacts of the change in the accounting policy to the 2008 and prior financial years.

Financial statement line item	Impact	2009 \$	2008 \$	Prior years \$
Staff costs	increase	–	187,059	558,641
Outsourced consultants costs	increase	–	–	83,248
General & admin costs (telecommunications)	increase	–	106,669	–
Retained losses	increase	–	293,728	641,889
Capitalised development costs	decrease	–	(293,728)	(641,889)

	Note	Consolidated Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$

NOTE 21: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Key Management Personnel

Hong Kong office rent paid to a company of which Mr S J McGregor is a director.	–	1,222	–	–
Hong Kong office services paid to a company of which Mr S J McGregor is a director.	–	2,556	–	–
Corporate communications services paid to a company of which Mr C R Grant-Foster is a director.	–	16,000	–	16,000
2008 Annual Report production costs paid to a company of which Mr C R Grant-Foster is a director.	4,732	–	4,732	–

NOTE 22: EMPLOYEE BENEFITS

Employee Remuneration Options

As reported in the 2008 Annual Report, the Company cancelled 6.22 million options under its previous Employee Share Option Plans (ESOP) on 30 June 2008. At the same time the Board resolved to implement a new ESOP designed to provide a more effective incentive to retain and motivate staff over the short to medium term, while preserving the Company's cash position. The grant of options rights provides an incentive that ultimately benefits both shareholders and option holders, as option holders will only benefit if the market price of the underlying shares exceeds the exercise price.

Under the terms of the new plan, a total of 2.22 million options were issued to eligible employees. The fair value of the options granted is calculated by valuing the options at their grant date and allocating the value equally over the period from grant date to vesting date. The value per option at grant date is calculated as the volume weighted average price (VWAP) for shares in the Company traded on the ASX in the 30 day period prior to grant date.

The 2008 Options Plan comprises two components: Series A and Series B. Series A options (28% of total) were granted on 1 July 2008 and vested on 30 June 2009. Series B options (72% of total) were granted progressively over the 2009 financial year, with 6% of the total being granted on the first day of each month during the year, commencing 1 July 2008. These options vest two years after each grant date. Series A and B options expire two years after each vesting date.

There are no service and performance criteria to be met in determining the vesting of remuneration options. However, vested options will expire 12 months after termination of employment, if not exercised during that period.

Details of share options outstanding as at the end of year

Grant Date	Exercise Date	Expiry Date	Exercise Price	Economic Entity		Parent Entity	
				30.06.09 No.	30.06.08 No.	30.06.09 No.	30.06.08 No.
23.12.04	23.12.06	23.12.09	\$1.00	–	75,000	–	75,000
15.05.06	15.05.08	15.05.11	\$0.60	–	250,000	–	250,000
01.08.07	28.04.08	28.04.10	\$0.500	580,000	580,000	580,000	580,000
Series A							
01.07.08	30.06.09	30.06.11	\$0.073	529,200	–	529,200	–
Series B							
01.07.08	01.07.10	01.08.12	\$0.072	113,400	–	113,400	–
01.08.08	01.08.10	01.08.12	\$0.066	113,400	–	113,400	–
01.09.08	01.09.10	01.09.12	\$0.060	113,400	–	113,400	–
01.10.08	01.10.10	01.10.12	\$0.033	113,400	–	113,400	–
01.11.08	01.11.10	01.11.12	\$0.038	113,400	–	113,400	–
01.12.08	01.12.10	01.12.12	\$0.037	113,400	–	113,400	–
01.01.09	01.01.11	01.01.13	\$0.034	113,400	–	113,400	–
01.02.09	01.02.11	01.02.13	\$0.029	113,400	–	113,400	–
01.03.09	01.03.11	01.03.13	\$0.025	113,400	–	113,400	–
01.04.09	01.04.11	01.04.13	\$0.020	113,400	–	113,400	–
01.05.09	01.05.11	01.05.13	\$0.018	113,400	–	113,400	–
01.06.09	01.06.11	01.06.13	\$0.021	113,400	–	113,400	–
				2,470,000	905,000	2,470,000	905,000

During the 2009 financial year 330,000 options under the 2008 Options Plan were cancelled as a result of two employees leaving the Company prior to their option entitlements vesting.

In July 2008, the remaining 325,000 options issued under the 2005 Options plan lapsed.

NOTE 23: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at the balance date the Directors were not aware of any contingent liabilities or contingent assets.

NOTE 24: FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise cash, together with trade debtors and trade creditors which arise directly from its operations. This note discloses the Group's objectives, policies and processes for managing and measuring a variety of risks associated with these financial instruments.

The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets. Two Way Limited does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are: market rate (or interest rate) risk; credit risk; liquidity risk and foreign exchange risk.

Objectives, policies and processes

Risk management is carried out by the Group's finance function under policies and objectives approved by the Board of Directors. The Head of Finance and Administration has been delegated the authority for designing and implementing processes which follow the objectives and policies. The Board receives monthly financial reports on the Group's performance including, where applicable, any issues relating to financial risk management.

Specific information regarding the mitigation of each financial risk to which the Group is exposed is provided below.

(a) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk arises from cash and cash equivalents, as well as credit exposure to customers, including outstanding receivables and committed transactions. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

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, net of any provisions for doubtful debts of those assets, as disclosed in the Balance Sheet and notes to the financial statements. The economic entity does not have any material credit risk exposure to any single debtor or group of debtors.

(b) Net Fair Values

For financial assets and liabilities the net fair value approximates their carrying value. By the date of this report, all trade debtors and trade creditors at the balance date had been settled in full.

(c) Market (Interest Rate) Risk

Interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates.

As at 30 June 2009, the economic entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial liability is as follows:

	Weighted average effective interest rate		Floating interest rate		Non-interest bearing		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	%	%	\$	\$	\$	\$	\$	\$
Financial Assets								
Cash	5.07	7.40	954,756	1,540,339	–	–	954,756	1,540,339
Receivables	–	–	–	–	188,198	137,218	188,198	137,218
Total financial asset			954,756	1,540,339	188,198	137,218	1,142,954	1,677,557
Financial Liabilities								
Trade and sundry creditors	–	–	–	–	428,566	530,596	428,566	556,027
Total financial liabilities	–	–	–	–	428,566	530,596	428,556	556,027

(d) Liquidity Risk

Liquidity risk arises from the Group's management of its working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. Two Way Limited maintains cash to meet all its liquidity requirements and manages its liquidity by carefully monitoring cash outflows due in a day-to-day and week-to-week basis. Furthermore, the Group's long term liquidity needs are identified in its annual Board-approved budget, and updated on a quarterly basis through revised forecasts.

At the balance sheet date, these forecasts indicate that further capital raising may be required within the next 12 months to meet the Group's obligations (refer Note1n).

(e) Foreign Currency Risk

The Group's exposure to foreign currencies is currently limited to sales of its interactive games service to a customer in New Zealand. These sales, invoiced on a monthly basis, are not denominated in the Group's measurement currency but rather, in New Zealand dollars. An assessment of the New Zealand dollar receivable at balance date was performed, including the impacts of an unfavourable exchange rate movement, and was found to be immaterial for the purposes of this disclosure.

The Group does not enter into any forward exchange contracts to buy or sell specified foreign currencies.

NOTE 25: ECONOMIC DEPENDENCY

The economic entity's main revenue-generating product is its TV wagering service. The service is currently only available to Tabcorp account holders in NSW and Victoria with either a Foxtel or Optus TV service.

NOTE 26: DISCONTINUED OPERATIONS

On 30 November 2007, the Economic Entity ceased its operations in Asia. As a result, Two Way TV Asia, a 100% subsidiary of the Economic Entity, closed its Hong Kong office. Financial performance of the discontinued operation to the date of cessation was reflected in the 2008 comparatives as follows:

	Discontinued Operation	
	2009 \$	2008 \$
Revenue	–	5,053
Operating expenses	–	(157,535)
Impairment losses	–	–
Loss before income tax	–	(152,482)
Income tax expense	–	–
Loss attributable to members of the parent entity	–	(152,482)

NOTE 27: EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Economic Entity, the results of those operations or the state of affairs of the Economic Entity in future financial years.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The Financial Statements and Notes, as set out on pages 18 to 36 are in accordance with the Corporations Act 2001; and
 - a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the Company and Economic Entity;
2. The Chief Executive Officer and Head of Finance and Administration have each declared that:
 - a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c) the financial statements and notes for the financial year give a true and fair view;
3. The remuneration disclosures set on pages 12 to 15 of the Directors' Report comply with accounting standards AASB124 Related Party Disclosures and the Corporations Regulations 2001; and
4. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors on 16 September 2009.



Mr Stuart McGregor
Chairman

INDEPENDENT AUDIT REPORT TO THE MEMBERS

William Buck
Business Advisors
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TWO WAY LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Two Way Limited (the company) and Two Way Limited and Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and 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.

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 control 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, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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*.

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Auditor's Opinion

In our opinion:

- a. the financial report of Two Way Limited and Two Way Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2009 and of their 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 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1n in the financial report which indicates that during the year ended 30 June 2009, the economic entity incurred a net loss of \$5,145,758 (2008: loss of \$4,381,876) and a net cash outflow from operating activities of \$1,571,659 (2008: outflow of \$5,809,997). These conditions, along with other matters as set forth in Note 1n, indicate the existence of a material uncertainty which may cast significant doubt about the economic entity's ability to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 14 of the report of the directors for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 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 Two Way Limited for the year ended 30 June 2009, complies with s 300A of the *Corporations Act 2001*.

Matters Relating to the Electronic Presentation of the Audited Financial Report

The auditor's report relates to the financial report of Two Way Limited for the year ended 30 June 2009 included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of the company's website. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to / from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this website.

William Buck

Chartered Accountants



L.E. Tutt

Partner

Sydney, 16 September 2009

Level 29, 66 Goulburn Street, Sydney NSW 2000

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SHAREHOLDER INFORMATION

TOP TWENTY SHAREHOLDERS

At 31 August 2009 the top 20 registered shareholders held 94,398,773 shares in the Company, equivalent to 57.64% of the Company's ordinary unrestricted shares.

Top Twenty Holders of Ordinary Fully Paid Shares

Rank	Name	Number of Ordinary Shares	% Of Issued Capital
1	Ebanco Com Pty Ltd, Ward Family A/C Attn: Robert Murray Ward PO Box 48 Collins Street West Melbourne VIC 8007	12,664,407	7.732
2	Irrewarra Investments Pty Ltd ST A/C GPO BOX 5264 Sydney NSW 2001	12,000,000	7.327
3	GFI Investments Pty Ltd Ward Super Fund A/C Attn: Robert Murray Ward PO Box 48 Collins Street West Melbourne VIC 8007	7,791,383	4.757
4	Jedward Nominees Pty Ltd PO Box 307 South Melbourne VIC 3205	7,000,389	4.274
5	Samuel Hewlings Chisholm 51 Douglas St St Ives NSW 2075	6,674,580	4.075
6	Mr John William Murray 27 Fitzwilliam Rd Vaucluse NSW 2030	5,324,542	3.251
7	Glenluce Properties Pty Ltd Glenluce Prop Sfund A/C PO Box 1139 North Sydney NSW 2060	4,778,200	2.917
8	HSBC Custody Nominees (Australia) Limited – A/C 3 GPO Box 5302 Sydney NSW 2001	4,009,000	2.448
9	National Nominees Limited GPO Box 1406 Melbourne VIC 3001	4,001,053	2.443
10	Screecree Pty Ltd Booran Directors S/F A/C 21 Wilks Avenue Malvern VIC 3144	3,994,561	2.439

Top Twenty Holders of Ordinary Fully Paid Shares (cont'd)

Rank	Name	Number of Ordinary Shares	% Of Issued Capital
11	Colin Bell Pty Ltd C/- Portfolio Admin GPO BOX 4718 Melbourne VIC 3001	3,800,466	2.320
12	Linkshore Pty Ltd 138 Wolseley Road Point Piper NSW 2027	3,780,280	2.308
13	Active Sports Marketing Pty Ltd PO Box 307 South Melbourne VIC 3205	3,166,945	1.934
14	Fortis Clearing Nominees P/L Settlement A/C Level 8 50 Bridge St Sydney NSW 2000	2,728,588	1.666
15	Fortis Clearing Nominees P/L DRP A/C Level 8 50 Bridge St Sydney NSW 2000	2,394,684	1.462
16	Lionel McFadyen & Mrs Jennifer June McFadyen McFadyen Super Fund A/C C/- Portfolio Admin GPO Box 4718 Melbourne VIC 3001	2,142,532	1.308
17	Joshua Mantello Joshua Mantello Family A/C 5A Stewart St Richmond VIC 3121	2,050,000	1.252
18	Stephen Alfred Aboud 27 Wentworth Street Point Piper NSW 2027	2,049,883	1.252
19	Jeremy Mantello Jeremy Mantello Family A/C 5A Stewart St Richmond VIC 3121	2,047,280	1.250
20	Arinside Pty Ltd 5/412 Toorak Rd Toorak VIC 3142	2,000,000	1.221

SUBSTANTIAL SHAREHOLDERS

At 31 August 2009 the following were substantial shareholders in the Company, as disclosed in substantial shareholder notices given to the Company:

Name of Substantial Holder	Number of Equity Securities
Robert Murray Ward	20,455,790
The Goldman Sachs Group, Inc	12,745,142
James Edward McKay	10,396,334

DISTRIBUTION OF SHAREHOLDINGS/UNMARKETABLE PARCELS

Range of Shares

Range	Total Holders	Units	% Issued Capital
1 – 1,000	15	11,321	0.007
1,001 – 5,000	92	317,976	0.194
5,001 – 10,000	70	639,002	0.390
10,001 – 100,000	234	9,851,249	6.015
100,001 – 9,999,999,999	139	152,968,587	93.394
Rounding			0.00
Total	550	163,788,135	100.00

Unmarketable Parcels

	Minimum Parcel Size	Holdings	Units
Minimum \$500.00 parcel at \$0.05 per unit	10,000	129	495,299

ISSUED SECURITIES

At 31 August 2009 the following securities were issued:

- 163,788,135 fully paid ordinary shares (the only quoted securities), held by 550 holders;
- 2,470,000 options (which are not quoted), held by 9 holders.

VOTING RIGHTS OF SHAREHOLDERS

The fully paid ordinary shareholders of the Company are entitled to vote at any meeting of the members of the Company, and their voting rights are:

- On a show of hands – one vote per shareholder; and
- On a poll – one vote per fully paid ordinary share.

ON MARKET BUY-BACK

There is no current on-market buy-back in respect of the Company's shares.

COMPANY DETAILS

Registered Office:

Suite 2.05
55 Miller St
Pymont NSW 2009

Principal Place of Business:

Suite 2.05
55 Miller St
Pymont NSW 2009

Company Secretary:

Mr Rointon Nugara

Share Registry:

Registries Limited
Level 7, 207 Kent Street
Sydney NSW 2000

Auditor:

William Buck NSW

way2betTM

way2playTM