Reclaim Industries Limited | **annual report**

# 2009

RCM
RECLAIM INDUSTRIES

# CORPORATE DIRECTORY

## DIRECTORS

Ms Jennifer KING - Non-Executive Chairperson

Mr John CROSBY – Managing Director

Mr Neil MACKENZIE - Non-Executive Director

## AUDITORS

Deloitte Touche Tohmatsu

Level 17

11 Waymouth Street

ADELAIDE SA 5000

Telephone: (08) 8407 7000

Facsimile: (08) 8407 7001

## COMPANY SECRETARY

Mr Scott Morgan

## COUNTRY OF INCORPORATION

Australia

## SOLICITORS

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Level 4,

Next Building

16 Milligan Street

PERTH WA 6000

## REGISTERED OFFICE

67 Miguel Road

BIBRA LAKE WA 6163

Telephone: (08) 9418 8144

Facsimile: (08) 9418 8174

## STOCK EXCHANGE

ASX Limited

Exchange Plaza

2 The Esplanade

PERTH WA 6000

## PRINCIPAL PLACE OF BUSINESS

67 Miguel Road

BIBRA LAKE WA 6163

Telephone: (08) 9418 8144

Facsimile: (08) 9418 8174

Email: info@reclaim.com.au

## SHARE REGISTRY

Security Transfer Registrars Pty Ltd

770 Canning Highway

APPLECROSS WA 6153

Telephone: (08) 9315 2333

Facsimile: (08) 9315 2233

## BANKERS

Westpac

109 Bannister Road

CANNING VALE WA 6144

**WEBSITE** www.reclaim.com.au

**ASX CODE** RCM

# TABLE OF CONTENTS

# CHAIRPERSON'S LETTER

Without a doubt 2009 was an extremely disappointing year with Reclaim Industries Limited generating an operating loss for the year of $2.2million on sales revenue of $12.9million. Deterioration of our key soft-fall surface laying market led this decline.

However the year has not been without its positives. The management team has overseen the upgrade of the WA production facility and similar improvements to the SA site. Whilst the implementation of these capital upgrades took a little longer than expected due to the deteriorating cashflow of the business, the resultant reduction in the cost per tonne of 30% to date, with further improvements expected, now provides the company with a competitive cost of production. The full effects of these initiatives will not be evident until the 2010 financial year. On another positive note our tyre collections business has grown by 20%.

The restructure of the senior management team during the year resulted in the recruitment of Scott Morgan as Chief Financial Officer and Paul Derham as National Sales Manager, bringing an increased range of expertise to the business. They in addition with John Crosby as Managing Director have led the team of dedicated and loyal staff through the period of capital upgrades and continual improvement of operational processes. Despite the financial pressures, we have managed to maintain our staffing level and believe that we have the most competent team in this industry. I would like to thank fellow board members Neil MacKenzie and John Crosby for their support and input throughout the year and recognize the contribution made by the other directors who served during the year, namely Libby Lyons, Chris Forrester and Matthew Bickford-Smith.

The board remains committed to the growth strategy of the business in order to provide a return to our patient shareholders. We appreciate the support and patience of shareholders during this difficult period for the company.

The company has shown its ability to withstand the turbulent conditions over the last 12 months, during which some of our competitors have gone out of business. As a result the company is in a stronger position to take advantage of the opportunities that exist for our industry as a whole. We believe there will be further consolidation of the industry in the short term and believe Reclaim is well placed to be a key player in this activity. The 2010 year has started on a positive note and the board is quietly confident this is a pattern that will continue throughout the year.

**Jennifer King - Chairperson**

# DIRECTORS' REPORT

Your directors present their report on Reclaim Industries Limited ("the Company") and its controlled entities for the financial year ended 30 June 2009.

## DIRECTORS

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

- Ms Jennifer King
- Mr John Crosby
- Mr Christopher Forrester (resigned 25 November 2008)
- Ms Elizabeth Lyons (resigned 29 October 2008)
- Mr Neil Mackenzie
- Mr Matthew Bickford-Smith (appointed 15 December 2008, resigned 28 April 2009)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

## COMPANY SECRETARY

The following person held the position of Company Secretary at the end of the financial year:
Mr Philip Warren (resigned 8/10/2008)
Mr Scott Morgan (appointed 8/10/2008)

## PRINCIPAL ACTIVITIES

The consolidated entities principal activities in the financial year were rubber recycling and manufacturing to convert used rubber tyres into commercially attractive surfacing, moulded and granule products for a wide range of industries in both domestic and international markets.

No significant change in the nature of these activities occurred during the financial year.

## REVIEW OF OPERATIONS

### *Earnings Result*

The result for the financial year ended 30 June 2009 was a loss of $2,213,287 compared with last year's loss of $717,372. The 2009 figure includes the following non-trading transactions:

- Loss on disposal of fixed assets $202,533.
- $197,322 in consulting and legal costs related to due diligence for an acquisition which did not eventuate.

It is also noted that the upgrade of the SA plant was funded by a grant under the IIFSA program totalling $472,000 (as at 30 June 2009 $412,771 had been received), which is not reflected in the above result due to the required treatment of these monies under Australian Accounting Standards, but is a substantial reason why the Company has been able to continue its development program at a time of significant trading losses. The net book value of plant and equipment has increased from $1.52 million to $2.75 million representing a major upgrade of what was an under-resourced area, holding back production and productivity.

Total sales revenue decreased from $15.8 million to $13.0 million resulting primarily from a 34% ($4.3 million) dramatic decline in the level of revenue from the surfacing division. This was due to the general deterioration of conditions in the economy and the cessation of government funding for schools for most of the year. The BER scheme for schools funding caused a great deal of activity but did not produce any work until late June. However this decline in revenue was partially offset by the increase in sales revenue from the Collections business which rose by 20%.

Much of the year was spent focussing on reducing the operating costs of Group's manufacturing operations. The replacement of aging machinery in Western Australia has realised significant improvements in efficiency and therefore the business has gladly witnessed a sizeable reduction in manufacturing costs. The Group realised a 30% reduction in the cost of production in the first two months of operation of the new plant before the end of the financial year. Once the implementation is complete the Group expects reduction in the cost of production from this facility in the vicinity of 50%. The installation of a similar facility in South Australia will produce similar results once fully operational. Commissioning of the facility in South Australia occurred during August 2009.

Effective 1 March 2009 the Group increased its SA-based tyre collection assets with the purchase of the Budget Tyres business in order to strengthen the continuity of our supply line and extend the vertical business process. There was a positive contribution to the result from this asset acquisition.

During the year 17,120,557 million shares were issued at 6.5 cents per share to raise $1,112,836. The funds were used for working capital and to continue the above capital equipment upgrades and process improvements.

*Future Growth*

The Group is continuing to develop a strong growth strategy with its unique focus as the only listed company exclusively focussed on rubber recycling. Whilst the Group's performance has been severely hampered by the economic downturn, many of our competitors have ceased trading. This has presented us with numerous opportunities which will enable the Group to grow as well as give us a larger national presence in all aspects of the tyre recycling sector. The board and senior management team are committed to reviewing all these opportunities so that the Group can grow and maximise shareholder's wealth.

In the past the Group has not been capable of producing sufficient levels of rubber products to satisfy its own needs. With the increased capacity of the West Australian production facility and expected future production from the South Australian plant this will provide material in excess of internal requirements at a competitive cost and therefore negotiations have commenced with potential customers for the supply of granulated rubber for use in a number of markets. The Group has already had a number of wins in this bulk market both locally and overseas. This is reducing the reliance on the soft-fall surfacing market which has hurt the performance of the business in the previous year and will leave the Company with a much more robust and diversified business model.

The company has started the 2010 financial year very strongly with a year to date EBIT $153,354 to the end of August. This is the result of the business realising the financial benefits of the cost reductions strategy and the development of new markets.

## CHANGE IN STATE OF AFFAIRS

No significant changes in the economic entities' state of affairs occurred during the financial year.

## SUBSEQUENT EVENTS

Other than as mentioned below or in the financial statements of the notes thereto, there have not been any matters or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

- On 28 September 2009 the Company signed an agreement to acquire the inventory and the majority of the plant and equipment associated with the former Renaza tyre processing facility in New South Wales for a purchase price of $621,000.

  The Company will also enter into a 3 year lease agreement on the premises where the equipment is currently located in Fairfield NSW.

  This transaction will result in the Company securing a high quality car tyre processing facility on the east coast capable of producing 2,400 tonnes of rubber per annum. The site will also be able to produce coloured rubber product.

  This will make the Company the only Australian company with the capacity to produce crumbed rubber in three states and coloured rubber in two states within Australia.

  The Company expects to commence operation from the Fairfield site in early October 2009.
- During August 2009 the Company has successfully negotiated an additional finance facility which is yet to be drawn down. The facility is a trade debtors factoring facility which enables the Company to drawdown up to 80% of the trade debtors up to an additional amount of $400,000. The debtor factoring facility is initially for a twelve month period and then continues until either party gives notice (3 months) to terminate the facility.

## FUTURE DEVELOPMENTS

Disclosure of information regarding likely developments in the operations of the Group in future financial years has been made under the Review of Operations section of this report.

## SHARE OPTIONS

During and since the end of the financial year, no options to acquire ordinary shares in the Company were granted under the Company's employee share option plan. No options lapsed during the year.

The following table sets out details of options as at the date of this report:

| Issuing entity | Number of shares under option | Class of shares | Exercise price of option | Expiry date of options |
|---|---|---|---|---|
| Reclaim Industries Limited | 1,500,000 | Ordinary | 0.20 | 30/06/2010 |
| Reclaim Industries Limited | 810,000 | Ordinary | 0.30 | 30/06/2011 |
| Reclaim Industries Limited | 420,000 | Ordinary | 0.40 | 30/06/2011 |

There were no shares or interests issued during or since the end of the financial year.

## ENVIRONMENTAL ISSUES

The consolidated entities' operations are regulated in WA and SA by the respective State Environmental Protection Acts.

## DIVIDENDS PAID OR RECOMMENDED

The directors recommend that no dividend be paid for the year ended 30 June 2009, nor have any amounts been paid or declared by way of dividend since the end of the previous financial year.

## INFORMATION ON CURRENT DIRECTORS

| | | |
|---|---|---|
| Ms Jennifer King | - | Chairperson - Appointed 22 January 2008 |
| Experience | - | Ms King holds a Bachelor of Business and has over 10 years' experience in accounting, taxation, administration and company secretarial work. She contracts her services to a publicly listed mining company and is also a director of several private companies, including her own consulting business. Ms King assumed the role of Chairperson on 25 February 2008. |
| Interest in Shares and Options | - | Ms King both directly and indirectly holds 24,796,214 shares.<br>Nil Options |
| Directorships held in other listed entities | - | During the past three years Ms King has not served as a Director for other listed companies. |
| Mr John Crosby | - | Managing Director - Appointed 11 April 2008 |
| Experience | - | Mr Crosby has over three years' experience in the tyre recycling sector and comes with extensive agribusiness and government experience. He was responsible for the refloat of Elders in 1993 and became a director of Elders Australia Limited before becoming a general manager at Elders after the Futuris takeover. |
| Interest in Shares and Options | - | Mr Crosby both directly and indirectly holds 14,048,808 shares in the Company.<br>Nil Options |
| Directorships held in other listed entities | - | During the past three years Mr Crosby has not served as a Director for other listed companies. |
| Mr Neil Mackenzie | - | Non – Executive Director (appointed 11 April 2008) |
| Experience | - | Mr Neil Mackenzie is a qualified chartered accountant with over 14 years experience in the public company sector and financial markets. Mr Mackenzie has previously served as an executive director of McGuigan Simeon Wines and Cockatoo Ridge Wines as well as Company Secretary of Proto Resources. He currently provides corporate financial consulting services to a range of clients. |
| Interest in Shares and Options | - | Mr Mackenzie holds no shares or options in the Company. |
| Directorships held in other listed entities | - | During the past three years Mr Mackenzie's directorships in other listed entities were as Managing Director of Cockatoo Ridge Wines Limited from1 September 2006 to 27 April 2007. |

## COMPANY SECRETARY

Mr Scott Morgan CA was appointed Company Secretary on 8 October 2008 replacing Mr Philip Warren. Mr Morgan is a Chartered Accountant with a Masters of Business Administration with over 13 years experience in the public company sector and accounting practice.

## INDEMNIFYING OFFICERS OR AUDITOR

During the financial year the Company paid insurance premiums in respect to Director's and Officer's liability insurance. The insurance policy precludes us from disclosing the amount of coverage. These insurance premiums relate to insurance of the Directors of the Company and its controlled entities names in the report and former Directors and Executive Officers of the Company and its controlled entities. The policy does not specify the premium for individual Directors and Executive Officers.

The Director's and Officer's liability insurance provides cover against costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Company or a related body corporate) incurred in their position as a Director or Executive Officer unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage.

No liability has arisen under the indemnity as at the date of this report.

## 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 these proceedings.

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

## NON-AUDIT SERVICES

The directors are of the opinion that the services as disclosed in note 7 to the financial statements do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 "Code of Ethics for Professional Accountants" issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

## DIRECTOR'S MEETINGS

The number of meetings of the company's Board of Directors attended by each director during the year ended 30 June 2009 was:

| 2009 | Meetings held while in office | Meetings attended |
|---|---|---|
| Jenny King | 12 | 12 |
| John Crosby | 12 | 12 |
| Neil MacKenzie | 12 | 11 |
| Matthew Bickford-Smith | 5 | 5 |
| Chris Forrester | 4 | 4 |
| Libby Lyons | 4 | 3 |

## AUDITORS INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 15 of the financial report.

## REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and other key management personnel of the Company and its wholly owned subsidiaries.

### *Director and other Key Management Personnel Details*

The following persons acted as directors of the Company during or since the end of the financial year:

Ms Jennifer King – Non-Executive Chairperson

Mr John Crosby – Managing Director

Mr Neil Mackenzie – Non-Executive Director

Ms Elizabeth Lyons – Non-Executive Director (resigned 29 October 2008)

Mr Christopher Forrester – Executive Director (resigned 25 November 2008)

Mr Matthew Bickford-Smith – Non- Executive Director (appointed 15 December 2008 and resigned 28 April 2009)

The following persons acted as other key management personnel of the Company during or since the end of the financial year:

Mr Scott Morgan – Chief Financial Officer (appointed 7 October 2008)

Mr Paul Derham – National Sales Manager (appointed 13 October 2008)

Mr Ian Robinson – General Manager SA

Mr Peter Owens – Chief Financial Officer (resigned 1 August 2008)

Mr Richard Timms – National Sales Manager (resigned 28 February 2009)

### *Relationship between the Remuneration Policy and Company Performance*

The tables below set out summary information about the consolidated entities' earnings and movements in shareholder wealth for the five years to June 2009:

| | 30 June 2009 | 30 June 2008 | 30 June 2007 | 30 June 2006 | 30 June 2005 |
|---|---|---|---|---|---|
| Revenue | 12,993,833 | 15,820,340 | 15,169,343 | 11,439,798 | 8,426,235 |
| Net profit / (loss) before tax | (2,172,516) | (693,485) | 226,670 | 28,769 | (1,100,645) |
| Net profit / (loss) after tax | (2,213,287) | (717,372) | 226,670 | 28,769 | (1,100,645) |

| | 30 June 2009 | 30 June 2008 | 30 June 2007 | 30 June 2006 | 30 June 2005 |
|---|---|---|---|---|---|
| Share price at beginning of the year | $0.10 | $0.12 | $0.08 | $0.04 | $0.06 |
| Share price at end of year | $0.06 | $0.10 | $0.12 | $0.08 | $0.04 |
| Basic earnings per share | (2.75) cents | (1.0) cents | 0.3 cents | 0.001 cents | (2.67) cents |
| Diluted earnings per share | (2.75) cents | (1.0) cents | 0.3 cents | 0.001 cents | (2.67) cents |

No dividends have been declared during the five years ended 30 June 2009 and the directors do not recommend the payment of a dividend in respect of the year ended 30 June 2009.

There is no link between the Company's performance and the setting of remuneration except as discussed below in relation to options for directors and other key management personnel.

### *Remuneration Philosophy*

The performance of the Group depends on the quality of its directors and other key management personnel and therefore the Group must attract, motivate and retain appropriately qualified industry personnel. The Group embodies the following principles in its remuneration framework:

- provide competitive rewards to attract and retain high calibre directors and other key management personnel;
- link executive rewards to shareholder value (by the granting of share options);
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

There is currently no policy or monitoring of key management personnel's limiting their risk in relation to issued options.

### *Remuneration Policy*

Due to its size, the Company does not have a remuneration committee. The compensation of directors is reviewed by the Board with the exclusion of the director concerned. The compensation of other key management personnel is reviewed by the Board of Directors.

The Board assesses the appropriateness of the nature and amount of remuneration of such persons on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from retention of high quality directors and other key management personnel. External advice on remuneration matters is sought whenever the Board deems it necessary.

The remuneration of the directors and other key management personnel is not dependent on the satisfaction of a performance condition other than set out in this report. Share options have been issued to key management personnel in prior years. These options do not have any performance conditions. The directors have decided that the exclusion of performance conditions is appropriate, after consideration of industry practice.

*Non-executive Director Remuneration*

The Board of Directors seeks to set remuneration of non-executive directors at a level which provides the Group's with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is appropriate at this stage of the Company's development.

The Directors have resolved that non-executive directors' fees are $30,000 per annum for each non-executive director and $30,000 per annum for the non-executive Chairman.

In addition, non-executive directors are entitled to be paid reasonable travelling, accommodation and other expenses incurred as a consequence of their attendance at meetings of directors and otherwise in the execution of their duties as directors.

*Managing Director Remuneration*

The Company aims to reward the managing director with a level and mix of remuneration commensurate with his position and responsibilities within the Company to:

- align the interests of the managing director with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

Details of the Managing Directors employment agreement are set out below.

*Other Key Management Personnel Remuneration.*

The Company aims to reward the other key management person with a level and mix of remuneration commensurate with their position and responsibilities within the Company to:

- align the interests of the persons with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

Details of the other key management personnel employment agreement are set out below.

*Employment Contracts of Directors and Key Management Personnel*

**Mr Crosby, Managing Director**

Remuneration and other terms of employment for the Managing Director, Mr Crosby, are formalised in a workplace employment agreement. Major provisions of the agreement relating to remuneration are set out below.

- Base pay of $150,000 plus statutory superannuation.
- Term of Agreement – The Agreement continues until the Company gives 4 weeks written notice of termination or is otherwise terminated in accordance with the Employment Agreement.
- Payment of termination of Agreement without cause – one month's remuneration.

The following bonus payments apply to Mr Crosby's employment agreement.

- The bonus payments and targets applicable to Mr Crosby for the 2009 financial year were:
- One off bonus payment of $25,000 if a minimum net profit of $500,000 was achieved for the 2009 financial year together with a 25% increase in gross revenue from 30 June 2008.
- One off bonus payment of $25,000 if earnings before tax exceeded 5% of gross revenue for the 2009 financial year.
- One off bonus payment of $25,000 if a minimum net profit of $800,000 was achieved for the 2010 financial year together with a 15% increase in gross revenue from 30 June 2009.
- The bonus payments and targets applicable to Mr Crosby for the 2010 financial year are still to be finalised by the Board of Directors.

**Mr Morgan, Chief Financial Officer (appointed 7 October 2008)**

Remuneration and other terms of employment for the Chief Financial Officer, Mr Morgan, are formalised in a workplace employment agreement. Major provisions of the agreement relating to remuneration are set out below.

- Base pay of $150,000 plus statutory superannuation.
- Term of Agreement – The Agreement continues until the Company gives 1 month's written notice of termination (1 months notice by the Executive) or is otherwise terminated in accordance with the Employment Agreement.
- Payment of termination of Agreement without cause – one month's remuneration

The following bonus payments apply to Mr Morgan's employment agreement.

- One off bonus payment of $25,000 on achieving key performance indicators for the business, yet to be determined.

**Mr Derham – National Sales Manager (appointed 13 October 2008)**

Remuneration and other terms of employment for the National Sales Manager, Mr Derham, are formalised in a workplace employment agreement. Major provisions of the agreement relating to remuneration are set out below.

- Base salary $100,000 plus statutory superannuation.
- Fully maintained motor vehicle.
- Payment on termination of Agreement without cause – one month's remuneration.

The following bonus payments apply to Mr Derham's employment agreement

- Bonus structure of 1% of gross surfacing sales above the agreed target figure. The target figure is $2m less than the previous year's sales.

**Mr Robinson – General Manager SA**

Remuneration and other terms of employment for the General Manager SA, Mr Robinson, are formalised in a workplace employment agreement. Major provisions of the agreement relating to remuneration are set out below.

- Base salary $100,000 plus statutory superannuation. This increased on 1 July 2009 from $80,000.
- Payment on termination of Agreement without cause – two week's remuneration.

**Mr Forrester, Executive Director (resigned 25 November 2008)**

Remuneration and other terms of employment for the previous Executive Director, Mr Forrester were formalised in a consultancy agreement. Major provisions of the agreement relating to remuneration are set out below.

- Term of Agreement – The agreement commenced on 1 February 2005 for a term of three years or until either party gives 3 months written notice of termination or otherwise terminated in accordance with the consultancy agreement. The Agreement was terminated on 6 August 2008.
- Remuneration nil (2008 $122,453) per annum plus GST payable monthly and reviewed annually.
- Payment on termination of Agreement without cause – 3 months fee plus GST, subject to the requirements of ASX Listing Rule 10.19.
- Director's fees of $12,500 (2008: $30,000) were also paid to Mr Forrester during the year.

**Mr Timms, National Sales Manager (resigned 28 February 2009)**

Remuneration and other terms of employment for the previous National Sales Manager, Mr Timms, were formalised in a workplace employment agreement. Major provisions of the agreement relating to remuneration are set out below.

- Term of Agreement – The Agreement continues until the Company gives 1 month's written notice of termination or is otherwise terminated in accordance with the Employment Agreement.
- Base pay of $150,000 plus statutory superannuation.
- Long term incentives through participation in the Reclaim Employee Share Plan.
- Payment on termination of Agreement without cause – one month's remuneration.

**Mr Owens, Chief Financial Officer (resigned 1 August 2008)**

- Term of Agreement – The Agreement commenced on 31 July 2006 and continues until the Company gives 2 weeks written notice of termination (2 weeks notice by the Executive) or is otherwise terminated in accordance with the Employment Agreement.
- Base salary $100,000 per annum plus statutory superannuation.
- Payment of termination of Agreement without cause – one months remuneration.

*Summary of amounts paid to Key Management Personnel*

The table below discloses the compensation of the key management personnel of the Group during the year.

| 2009 | Short-term employee benefits<br>Salary & Fees | Post employment superannuation | Sub total | Share-based payments | Total | Percentage of total remuneration for the year that consists of options |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | % |
| Ms King | 25,833 | 2,324 | 28,157 | - | 28,157 | - |
| Mr Crosby | 150,000 | 13,500 | 163,500 | - | 163,500 | - |
| Mr Mackenzie | 27,300 | 2,700 | 30,000 | - | 30,000 | - |
| Ms Lyons | 10,000 | 900 | 10,900 | - | 10,900 | - |
| Mr Morgan | 105,192 | 9,467 | 114,659 | - | 114,659 | - |
| Mr Derham | 71,129 | 6,401 | 77,530 | - | 77,530 | - |
| Mr Robinson | 80,000 | 7,200 | 87,200 | - | 87,200 | - |
| Mr Bickford-Smith | 10,000 | 900 | 10,900 | - | 10,900 | - |
| Mr Forrester | 12,500 | - | 12,500 | (13,820) (i) | (1,320) | - |
| Mr Timms | 109,062 | 9,815 | 118,877 | - | 118,877 | - |
| Mr Owens | 13,461 | 1,211 | 14,672 | (9,725) (i) | 4,947 | - |
| 2009 Total | 614,477 | 54,418 | 668,895 | (23,545) | 645,350 | |

(i) This relates to shares.

No bonuses were paid to key management personnel during the year ended 30 June 2009.

| 2008 | Short-term employee benefits<br>Salary & Fees | Post employment superannuation | Sub total | Share-based payments | Total | Percentage of total remuneration for the year that consists of options |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | % |
| Ms King | 8,333 | - | 8,333 | - | 8,333 | - |
| Mr Crosby | 27,000 | 2,250 | 29,250 | - | 29,250 | - |
| Mr Forrester | 229,673 | - | 229,673 | 99,844 (i) | 329,517 | 27.54 |
| Mr Mackenzie | 6,881 | 619 | 7,500 | - | 7,500 | - |
| Ms Lyons | 34,543 | 3,113 | 37,656 | 6,400(ii) | 44,056 | - |
| Mr Atkins | 27,300 | 2,700 | 30,000 | 43,488 (iii) | 73,488 | 59.18 |
| Mr Timms | 150,000 | 12,479 | 162,479 | - | 162,479 | - |
| Mr Owens | 103,333 | 9,075 | 112,408 | 6,879 (ii) | 119,287 | - |
| 2008 Total | 587,063 | 30,236 | 617,299 | 156,611 | 773,910 | |

(i) This relates to options ($90,764) and shares ($9,080).

(ii) This relates to shares.

(iii) This relates to options.

No key management personnel appointed during the year received a payment as part of their consideration for agreeing to hold the position.

### *Share Options held by Key Management Personnel*

During the financial year, the following share options were on issue:

| Options series | Grant date | Expiry date | Grant date fair value | Vesting date |
|---|---|---|---|---|
| DO December 2006 | 29 December 2006 | 30 June 2010 | $0.0350 | 29 December 2006 |
| ESOP April 2007 | 17 April 2007 | 30 June 2010 | $0.0473 | 17 April 2007 |
| DO December 2007 | 10 December 2007 | 30 June 2010 | $0.0407 | 10 December 2007 |
| DO December 2007 | 10 December 2007 | 30 June 2011 | $0.0362 | 10 December 2007 |
| DO December 2007 | 10 December 2007 | 30 June 2011 | $0.0266 | 10 December 2007 |

"DO" means director share options and "ESOP" means share options issued under the employee share option plan. Shares issued under ESOP were issued to the person prior to the person being appointed a director.

During the year ended 30 June 2009 no share options were granted to key management personnel.

The following table summarises the value of options granted, exercised or lapsed during the year that relate to key management personnel:

| | Options granted value at grant date | Options exercised value at exercise date | Options lapsed value at time of lapse |
|---|---|---|---|
| | $ | $ | $ |
| Ms King | - | - | - |
| Mr Crosby | - | - | - |
| Mr Mackenzie | - | - | - |
| Ms Lyons | - | - | - |
| Mr Morgan | - | - | - |
| Mr Derham | - | - | - |
| Mr Robinson | - | - | - |
| Mr Forrester | - | - | - |
| Mr Timms | - | - | - |
| Mr Owens | - | - | - |

Value of options – basis of calculation

- Value of options granted at grant date is calculated by multiplying the fair value of options at grant date by the number of options granted during the financial year.
- Value of options exercised at exercise date is calculated by multiplying the fair value of options at the time they are exercised (calculated as the difference between exercise price and the Australian Securities Exchange last sale price on the day that the options were exercised) by the number of options exercised during the financial year.
- Value of options lapsed at the lapsed date is calculated by multiplying the fair value of options at the time they lapsed multiplied by the number of options lapsed during the financial year.

The total value of options included in compensation for the financial year is calculated in accordance with Accounting Standard AASB 2 "Share-based Payment". Options granted during the financial year are recognised in compensation over their vesting period.

### *Shares held in escrow that had been issued to Key Management Personnel*

No shares have been issued under the Employee Share Scheme to key management personnel during the year.

Under the Employee Share Scheme shares were issued to key management personnel on 17 April 2007 in two tranches and are subject to continuity of service requirements through to 30 June 2009 (first tranch) and to continuity of service requirements through to 30 June 2011 (second tranch). The shares are held in escrow until the continuity of service requirement is met.

The following table summarises the movement for the year in the number of these shares held by key management personnel that are held in escrow is set out below:

| | Number |
|---|---|
| Balance at beginning of financial year | 380,000 |
| Released from escrow | - |
| Cancelled during the financial year | (380,000) |
| Balance at the end of financial year | - |

The following table summarises the value of options granted, exercised or lapsed during the year that relate to key management personnel:

| | Shares granted value at grant date | Shares released from escrow value at released date | Shares cancelled at time of cancellation |
|---|---|---|---|
| | $ | $ | $ |
| Ms King | - | - | - |
| Mr Crosby | - | - | - |
| Mr Mackenzie | - | - | - |
| Ms Lyons | - | - | - |
| Mr Morgan | - | - | - |
| Mr Derham | - | - | - |
| Mr Robinson | - | - | - |
| Mr Forrester | - | - | 180 |
| Mr Timms | - | - | - |
| Mr Owens | - | - | 200 |

Value of options – basis of calculation

- Value of shares granted at grant date is calculated by multiplying the fair value of shares at grant date by the number of options granted during the financial year.
- Value of options released from escrow is calculated by multiplying the fair value of shares at the time they are released (calculated as the Australian Securities Exchange last sale price on the day that the shares were released) by the number of shares released during the financial year.
- Value of shares cancelled is calculated by multiplying the buyback price for the shares to be cancelled by the number cancelled during the financial year.

The director's report is signed in accordance with a resolution of directors made pursuant to section 298(2) of the Corporations Act 2001

J Crosby

**Managing Director**

30th September 2009

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Reclaim Industries Limited
93 Frome Street
ADELAIDE SA 5001

30 September 2009

Dear Board Members

**Reclaim Industries Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Reclaim Industries Limited.

As lead audit partner for the audit of the financial statements of Reclaim Industries Limited for the financial year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu.
DELOITTE TOUCHE TOHMATSU

Jason Handel.

J J Handel
Partner
Chartered Accountants

# INCOME STATEMENT

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | Note | $ | $ | $ | $ |
| Revenue from continuing operations | 3 | 12,993,833 | 15,820,340 | 3,347,569 | 3,668,800 |
| Raw materials and consumables used | | (3,490,290) | (4,411,583) | (422,882) | (1,791,362) |
| Finance costs | 4 | (169,573) | (19,431) | (59,939) | (15,975) |
| Depreciation and amortisation expense | 4 | (431,066) | (389,964) | (318,824) | (281,945) |
| Rent | | (534,532) | (449,575) | (285,802) | (259,820) |
| Hire of equipment | | (238,528) | (216,844) | (30,894) | - |
| Fuel | | (236,511) | (197,093) | (27,037) | - |
| Other expenses | | (1,260,293) | (1,144,288) | (127,497) | (21,132) |
| Employee related costs | 4 | (5,275,431) | (4,876,834) | (1,549,742) | (1,127,856) |
| External contractors' expense | | (2,170,555) | (2,841,199) | (186,136) | (178,272) |
| Freight expense | | (472,504) | (594,341) | (173,084) | (90,628) |
| Repairs and maintenance | | (504,173) | (558,186) | (299,309) | (394,293) |
| Travel and related expense | | (198,392) | (653,678) | (6,933) | (2,785) |
| Share based payments | 23 | 18,032 | (189,035) | 18,032 | (189,035) |
| Allowance for doubtful loan | 10 | - | - | (2,721,061) | - |
| Impairment of investment in subsidiaries | 14 | - | - | (139,620) | - |
| Share of net profits of associates accounted for using the equity method | 13 | - | 16,029 | - | - |
| (Loss) / gain on sale of assets | | (202,533) | 12,197 | (182,345) | 11,907 |
| Loss before income tax | | (2,172,516) | (693,485) | (3,165,504) | (672,396) |
| Income tax expense | 5 | (40,771) | (23,887) | - | - |
| Loss for the year | | (2,213,287) | (717,372) | (3,165,504) | (672,396) |
| | | | | | |
| Attributable to: | | | | | |
| Equity holders of the parent | | (2,201,388) | (731,268) | (3,165,504) | (672,396) |
| Minority Interests | | (11,899) | 13,896 | - | - |
| | | (2,213,287) | (717,372) | (3,165,504) | (672,396) |
| | | | | | |
| Earnings per share | | | | | |
| Basic loss per share (cents per share) | 8 | (2.75) | (1.0) | | |
| Diluted loss per share (cents per share) | 8 | (2.75) | (1.0) | | |

The above income statement should be read in conjunction with the accompanying notes.

# BALANCE SHEET

## AS AT 30 JUNE 2009

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | Note | $ | $ | $ | $ |
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 9 | 250,682 | 1,166,629 | 202,424 | 1,132,141 |
| Trade and other receivables | 10 | 1,441,844 | 1,992,436 | 365,240 | 442,340 |
| Inventories | 11 | 739,093 | 634,883 | 246,842 | 156,239 |
| Other | 12 | 86,150 | 142,835 | 10,834 | 102,334 |
| TOTAL CURRENT ASSETS | | 2,517,769 | 3,936,783 | 825,340 | 1,833,054 |
| NON-CURRENT ASSETS | | | | | |
| Trade and other receivables | 10 | - | - | 278,593 | 451,674 |
| Other financial assets | 14 | - | - | 337,246 | 476,866 |
| Goodwill | 15 | 383,119 | 143,119 | 240,000 | - |
| Other intangible assets | 16 | 20,044 | 27,568 | - | - |
| Plant and equipment | 18 | 2,750,045 | 1,520,859 | 2,291,365 | 1,269,482 |
| TOTAL NON-CURRENT ASSETS | | 3,153,208 | 1,691,546 | 3,147,204 | 2,198,022 |
| TOTAL ASSETS | | 5,670,977 | 5,628,329 | 3,972,544 | 4,031,076 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 19 | 1,180,959 | 1,564,981 | 1,359,178 | 591,342 |
| Customer deposits | | 274,032 | 162,789 | - | - |
| Borrowings | 21 | 844,113 | 87,635 | 792,859 | 74,245 |
| Provisions | 20 | 160,762 | 192,994 | 140,762 | 140,487 |
| TOTAL CURRENT LIABILITIES | | 2,459,866 | 2,008,399 | 2,292,799 | 806,074 |
| NON-CURRENT LIABILITIES | | | | | |
| Borrowings | 21 | 573,311 | 282,872 | 381,739 | 275,521 |
| Deferred income (government grant) | | 407,937 | - | 407,937 | - |
| Provisions | 20 | 39,264 | - | 39,264 | - |
| TOTAL NON-CURRENT LIABILITIES | | 1,020,512 | 282,872 | 828,940 | 275,521 |
| TOTAL LIABILITIES | | 3,480,378 | 2,291,271 | 3,121,739 | 1,081,595 |
| NET ASSETS | | 2,190,599 | 3,337,058 | 850,805 | 2,949,481 |
| EQUITY | | | | | |
| Issued capital | 22 | 7,532,552 | 6,375,692 | 7,532,552 | 6,375,692 |
| Reserves | 23 | 190,059 | 280,091 | 190,059 | 280,091 |
| Accumulated losses | 24 | (5,552,939) | (3,351,551) | (6,871,806) | (3,706,302) |
| Parent entity interest | | 2,169,672 | 3,304,232 | 850,805 | 2,949,481 |
| Minority equity interest | | 20,927 | 32,826 | - | - |
| TOTAL EQUITY | | 2,190,599 | 3,337,058 | 850,805 | 2,949,481 |

The above balance sheet should be read in conjunction with the accompanying notes.

# STATEMENT OF RECOGNISED INCOME AND EXPENSE

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | Note | $ | $ | $ | $ |
| Net income / (expense) recognised directly in equity | | - | - | - | - |
| Loss for the period | | (2,213,287) | (717,372) | (3,165,504) | (672,396) |
| Total recognised income and expense for the period | | (2,213,287) | (717,372) | (3,165,504) | (672,396) |
| | | | | | |
| Attributable to: | | | | | |
| Equity holders of the parent | | (2,201,388) | (731,268) | (3,165,504) | (672,396) |
| Minority interests | | (11,899) | 13,896 | - | - |
| | | (2,213,287) | (717,372) | (3,165,504) | (672,396) |

The above statement of recognised income and expense should be read in conjunction with the accompanying notes.

# CASH FLOW STATEMENT

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | Note | $ | $ | $ | $ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Receipts from customers | | 14,763,604 | 15,793,586 | 3,596,977 | 1,375,518 |
| Payments to suppliers and employees | | (15,946,362) | (16,613,869) | (3,380,714) | (2,204,693) |
| Interest and other costs of finance paid | | (169,573) | (19,431) | (59,939) | (15,975) |
| Income tax paid | | (40,771) | (23,887) | - | - |
| **Net cash (used in) / provided by operating activities** | 28(a) | (1,393,102) | (863,601) | 156,324 | (845,150) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Purchase for property, plant and equipment | | (1,289,879) | (155,468) | (1,211,125) | (105,678) |
| Proceeds from sale of property, plant and equipment | | 3,500 | 60,745 | 12,227 | 85,808 |
| Proceeds from government grant | | 412,771 | - | 412,771 | - |
| Interest received | | 27,868 | 59,603 | 1,638 | 623 |
| Investments | | - | - | - | (50,000) |
| Loan repayments from related parties | | - | - | (1,647,091) | 6,608,469 |
| Payments for deposits | | - | (29,908) | - | - |
| Purchase of Budget Tyres business | 31 | - | - | - | - |
| Acquisition of controlled entity, net of cash acquired | 31 | - | (50,000) | - | - |
| **Net cash (used in) / provided by investing activities** | | (845,740) | (115,028) | (2,431,580) | 6,539,222 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Proceeds from issue of shares | | 1,112,836 | 500,000 | 1,112,836 | 500,000 |
| Payment for share buy-back to equity holders of the parent | | (998) | (854) | (998) | (854) |
| Payment for share issue costs | | (26,978) | (30,000) | (26,978) | (30,000) |
| Proceeds from borrowings | | 440,975 | - | 440,975 | - |
| Repayment of borrowings | | (202,940) | (167,369) | (180,296) | (3,003) |
| **Net cash provided by financing activities** | | 1,322,895 | 301,777 | 1,345,539 | 466,143 |
| **Net decrease in cash held** | | (915,947) | (676,852) | (929,717) | 6,160,215 |
| **Cash at beginning of financial year** | | 1,166,629 | 1,843,481 | 1,132,141 | (5,028,074) |
| **Cash at end of financial year** | 9 | 250,682 | 1,166,629 | 202,424 | 1,132,141 |

The above cash flow statement should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. SUMMARY OF ACCOUNTING POLICIES

### *Statement of Compliance*

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report includes the separate financial statements of the Company and the Consolidated financial statements of the Group.

Accounting standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 29 September 2009.

### *Basis of Preparation*

The financial report has been prepared on a going concern basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

In the application of the Group's accounting policies, as set out below, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### *Going Concern*

The financial report has been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

For the year ended 30 June 2009 the Group and the Company made a loss of $2,213,287 and $3,165,504 (2008: $717,372 and $672,396) respectively and had net cash used in / (provided by) operating activities of $1,393,102 and ($156,324) (2008: $863,601 and $845,150) respectively.

The Directors believe that it is appropriate to prepare the financial statements on a going concern basis for the following reasons:

(a) The Company has recently installed new machinery at its Western Australia (WA) operations and is in the process of upgrading the South Australia (SA) production facilities. These new machines will have the effect of reducing the unit cost of production once they are operating at normal operating levels and will also significantly increase the volume of production. The WA machinery was installed and ready for use during May 2009 and the SA machinery was installed during August 2009. The full financial effect of these machines is expected to be realised from September 2009.

(b) The Company's single largest source of income is from rubberised surfacing sales. This division has experienced a decline in sales of 34% compared to the corresponding period last year. This decline is due predominantly to the prevailing economic conditions. The Directors believe that the Group and the Company will benefit from the "Building the Revolution" - Federal Government Schools Funding Programme as school playgrounds are a significant component of surfacing revenues. Therefore it is expected that revenues should return to historical levels.

(c) As a result of the additional production capacity at both the WA and SA production facilities new markets need to be sourced to sell bulk rubber and associated materials to wholesale customers. The focus on these markets has been successful to date with in excess of $600,000 sales to wholesale customers in the first two months of the 2010 financial year. The Directors believe this market will be an area for future growth and is a key strategy to reduce the reliance on the surfacing division of the business.

(d) The Company has continued to review operating costs related to the rubberised surfacing division. It has identified cost savings that can be achieved that will reduce cost of sales. These were implemented in the later part of the 2009 financial year and have resulted in a lower level of sales being required in order to break even.

(e) During September 2009 the Company has successfully negotiated an additional finance facility which is yet to be drawn down. The facility is a trade debtors factoring facility which enables the Company to drawdown up to 80% of the trade debtors up to an additional amount of $400,000. The debtor factoring facility is initially for a twelve month period and then continues until either party gives notice (3 months) to terminate the facility.

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) On 28 September 2009 the Company signed a licence agreement to operate the former Renaza tyre processing facility in New South Wales. A purchase agreement was also signed on the same day for the Company to acquire the tyre processing equipment and inventory for $621,000 (excluding GST). The purchase price is due approximately 4 weeks from the acquisition date. The Company is currently in discussions with a number of financiers in relation to providing finance for the acquisition. (Refer to note 29 for further details).

The Group has made a strong start to the 2010 financial year with the first two months generating an unaudited profit of $153,354. Further, the Group expects to generate a positive operating cashflow in the first quarter as a result of the initiatives listed above that have begun to take full effect.

In the event that:

(a) the targeted level of sales and therefore operating cash improvement forecasted; and

(b) the financing for the acquisition of the Renaza tyre processing facility; and

(c) the anticipated cash inflows from the operation of the Renaza tyre processing facility

are not achieved and the Group and the Company are unable to obtain additional financing and equity raisings, then there is significant uncertainty as to whether the Group and the Company may be able to continue as going concerns and, therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amount and classification of liabilities that might be necessary should the Group and the Company not continue as going concerns.

### *Significant Accounting Policies*

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

**(a) Plant and Equipment**

Plant and equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight line basis, so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The following estimated useful lives are used in the calculation of depreciation:

- Plant and equipment 10-40%
- Motor Vehicle 20%
- Leased Assets 20-25%

**(b) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts, where drawn, are shown within borrowings in current liabilities in the balance sheet.

**(c) Employee Benefits**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Contributions to accumulated benefit superannuation benefit plans are expensed when incurred.

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

**(d) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables, which are recognised inclusive of GST.

The net amount of GST recoverable from the taxation authority is included as part of receivables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financial activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

**(e) Goodwill**

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill is subsequently measured at its cost less any impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) expected to benefit from the synergies of the business combination. CGUs to which goodwill has been allocated are tested for impairment annually.

**(f) Income Tax**

Current tax

Current tax is calculated by references to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacting by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Reclaim Industries Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 5 to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

**(g) Financial instruments issued by the Company**

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

**(h) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**(i) Leased Assets**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the assets.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**(j) Principles of Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purposes entities) controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

**(k) Provisions**

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

**(l) Impairment of Assets**

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. Any impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

**(n) Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**(o) Financial Assets**

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs. Subsequent to initial recognition, investments in subsidiaries are measured at cost.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

**Loans and receivables**

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

Interest income is recognised by applying the effective interest rate method.

**Impairment of financial assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit and loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

**(p) Intangible Assets**

**Client list**

Client listings are recorded at cost and are amortised over 5 years, as the client lists are amortised over the projected cash flows from the clients over the 5 years following acquisition, but are tested for impairment annually and whenever there is an indication that the client listing may be impaired.

**Intangible assets acquired in a business combination**

All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

**(q) Business Combinations**

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with the AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

**(r) Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

**(s) Government grants**

Government grants are assistance by the government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Company other than the requirement to operate in certain regions or industry sectors.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet and recognised as income on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income of the period in which it becomes receivable.

**(t) Foreign currency**

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of the entity are expressed in Australian dollars, which is the functional currency of Reclaim Industries Limited, and the presentation currency for the financial statements.

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences are recognised in profit or loss in the period.

**(u) Payables**

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

## 2. FINANCIAL RISK MANAGEMENT

**(a) Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2008.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 21, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in note 22, 23 and 24 respectively.

Operating cash flows and share issues are used to maintain and expand the Group's operations, as well as to make the routine outflows of tax and repayment of maturing debt.

**(b) Categories of financial instruments**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| **Financial assets** | | | | |
| Loans and receivables | 1,441,844 | 1,992,436 | 643,833 | 894,014 |
| Cash and cash equivalents | 250,682 | 1,166,629 | 202,424 | 1,132,141 |
| Investment in subsidiaries | - | - | 337,246 | 476,866 |
| **Financial liabilities** | | | | |
| Amortised cost | 2,598,383 | 1,935,488 | 2,533,776 | 941,108 |

## 2. FINANCIAL RISK MANAGEMENT (CONTINUED)

**(c) Financial risk management objectives**

The Group's activities expose it to a variety of financial risks: market risk (including currency and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group does not use derivative financial instruments; however the Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risks and aging analysis for credit risk.

Risk management is carried out by the Board of Directors with assistance from suitably qualified management.

**(d) Market risk**

The Group's activities expose it primarily to the financial risks of changes in interest rates (refer note 2(e)). The Group does not enter into interest rate caps and/or swaps to mitigate the risk of rising interest rates.

**(e) Interest rate risk management**

The Company and the Group are exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates.

The Company and the Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

*Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to directors and represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's and Company's net loss would increase by $2,204 and decrease by $2,204 respectively (2008: nil).

The Group's sensitivity to interest rates has increased during the current year due to the use of variable rate debt instruments.

**(f) Foreign currency risk management**

The Group undertakes certain transactions denominated in foreign currency, hence exposes the Group to exchange rate fluctuations. The Group does not enter into any forward exchange contracts to mitigate this risk. As at 30 June 2009 there are no amounts outstanding denominated in foreign currency (2008: nil)

**(g) Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposures to its counterparties are monitored. Credit exposure is controlled by a weekly meeting of management.

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure.

**(h) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 28(c) is a listing of additional undrawn facilities that the Company/Group has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

The following tables detail the Company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

## 2. FINANCIAL RISK MANAGEMENT (CONTINUED)

| Consolidated | | | | |
|---|---|---|---|---|
| | Weighted average effective interest rate | Less than 1 year | 1-5 years | 5+ years |
| | % | $ | $ | $ |
| **2009** | | | | |
| Non-interest bearing | - | 1,080,959 | - | - |
| Variable interest rate instruments | 9.16 | 444,341 | - | - |
| Fixed interest rate instruments | 10.69 | 234,403 | 650,356 | - |
| | | 1,759,703 | 650,356 | - |
| **2008** | | | | |
| Non-interest bearing | - | 1,564,981 | - | - |
| Fixed interest rate instruments | 8.82 | 117,722 | 242,278 | 85,730 |
| | | 1,682,703 | 242,278 | 85,730 |

| Company | | | | |
|---|---|---|---|---|
| | Weighted average effective interest rate | Less than 1 year | 1-5 years | 5+ years |
| | % | $ | $ | $ |
| **2009** | | | | |
| Non-interest bearing | - | 1,359,178 | - | - |
| Variable interest rate instruments | 9.16 | 444,341 | - | - |
| Fixed interest rate instruments | 8.37 | 160,022 | 429,722 | - |
| | | 1,963,541 | 429,722 | - |
| **2008** | | | | |
| Non-interest bearing | - | 591,342 | - | - |
| Fixed interest rate instruments | 8.61 | 101,349 | 233,024 | 85,734 |
| | | 692,691 | 233,024 | 85,734 |

The following tables detail the Company's and the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company/Group anticipates that the cash flow will occur in a different period.

## 2. FINANCIAL RISK MANAGEMENT (CONTINUED)

| Consolidated | | | | |
|---|---|---|---|---|
| | Weighted average effective interest rate | Less than 1 year | 1-5 years | 5+ years |
| | % | $ | $ | $ |
| **2009** | | | | |
| Non-interest bearing | - | 1,666,526 | - | - |
| Fixed interest rate instruments | 4.00 | 26,087 | - | - |
| | | 1,692,613 | - | - |
| **2008** | | | | |
| Non-interest bearing | - | 3,079,065 | - | - |
| Fixed interest rate instruments | 7.05 | 583,407 | | |
| | | 3,662,472 | - | - |

| Company | | | | |
|---|---|---|---|---|
| | Weighted average effective interest rate | Less than 1 year | 1-5 years | 5+ years |
| | % | $ | $ | $ |
| **2009** | | | | |
| Non-interest bearing | - | 541,664 | - | 278,593 |
| Fixed interest rate instruments | 4.00 | 26,087 | - | - |
| | | 567,751 | - | 278,593 |
| **2008** | | | | |
| Non-interest bearing | - | 1,494,481 | - | 451,674 |
| Fixed interest rate instruments | 7.05 | 583,407 | - | - |
| | | 2,077,888 | - | 451,674 |

**(i) Fair value of financial instruments**

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair values.

## 3. REVENUE

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | Note | $ | $ | $ | $ |
| Sale of goods: | | | | | |
| - customers | | 12,451,884 | 15,760,737 | 1,032,578 | 1,280,195 |
| - controlled entities | | - | - | 1,851,367 | 2,387,982 |
| Interest received other persons | | 27,868 | 59,603 | 1,638 | 623 |
| Other | | 514,081 | - | 461,986 | - |
| Total Revenue | | 12,993,833 | 15,820,340 | 3,347,569 | 3,668,800 |

## 4. LOSS FOR THE YEAR

Other expenses

| | | | | |
|---|---|---|---|---|
| Loss for the year includes the following expenses: | | | | |
| Employee related costs: | | | | |
| - post employment benefits | (469,681) | (438,915) | (152,214) | (101,507) |
| - share based payments | 18,032 | (189,035) | 18,032 | (189,035) |
| - other employee benefits | (4,805,750) | (4,437,919) | (1,397,528) | (1,026,349) |
| | (5,257,399) | (5,065,869) | (1,531,710) | (1,316,891) |
| Finance costs: | | | | |
| - interest on obligations on finance leases | (50,996) | (15,148) | (28,165) | (14,089) |
| - other interest expense | (118,577) | (4,283) | (31,774) | (1,886) |
| | (169,573) | (19,431) | (59,939) | (15,975) |
| Depreciation and amortisation: | | | | |
| - depreciation of fixed assets | (345,343) | (339,683) | (261,770) | (245,287) |
| - amortisation of leased assets | (78,199) | (40,249) | (57,054) | (36,658) |
| - amortisation of customer lists | (7,524) | (10,032) | - | - |
| | (431,066) | (389,964) | (318,824) | (281,945) |
| Cost of goods sold | (7,623,115) | (10,244,479) | (1,725,877) | (1,070,713) |
| Operating lease rentals | (534,532) | (449,575) | (285,802) | (259,820) |

## 5. INCOME TAX EXPENSE

**(a) Income tax recognised in loss**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| **Current tax expense** | - | - | - | - |
| Adjustments recognised in the current year in relation to the current tax of prior years | 40,771 | 23,887 | - | - |
| Deferred tax expense relating to origination and reversal of temporary differences and tax losses | - | - | - | - |
| | 40,771 | 23,887 | - | - |

## 5. INCOME TAX EXPENSE (CONTINUED)

The prima facie income tax expense on pre-tax accounting loss from operation reconciles to the income tax expense in the financial statements as follows:

| | | | | |
|---|---|---|---|---|
| Loss for the period | (2,172,516) | (693,485) | (3,165,504) | (672,396) |
| Income tax expense calculated at 30% | (651,755) | (208,046) | (949,651) | (201,719) |
| Shared based payments | (5,410) | 56,711 | (5,410) | 56,711 |
| Non-deductible expenses | 7,465 | 4,648 | 7,408 | - |
| Allowance for doubtful loan | - | - | 816,318 | - |
| Impairment of investment in subsidiaries | - | - | 41,886 | - |
| Investment allowance | (44,401) | - | (38,240) | - |
| Current losses not recognised | 446,499 | 142,602 | 6,218 | 144,383 |
| Current year temporary differences not recognised | 247,602 | 4,085 | 121,471 | 625 |
| | - | - | - | - |
| Adjustments recognised in the current year in relation to the current tax of prior years | 40,771 | 23,887 | - | - |
| Income tax expense (income) | 40,771 | 23,887 | - | - |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

**(b) Recognised deferred tax assets and (liabilities)**

Deferred tax assets and (liabilities) are attributable to the following:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Trade and other receivables | 15,968 | 11,591 | - | 6,000 |
| Plant and equipment | 7,667 | (47,094) | (46,866) | (55,585) |
| Client list | (6,013) | (16,540) | - | - |
| Other assets | - | (519) | - | (519) |
| Trade and other payables | 16,108 | 20,954 | 7,010 | 12,295 |
| Employee benefits | 54,008 | 42,146 | 54,008 | 42,146 |
| Warranty provision | 6,000 | 15,752 | - | - |
| Deferred income | 122,381 | - | 122,381 | - |
| Share issue costs | 17,079 | 15,007 | 17,079 | 15,007 |
| Other | 76,085 | 11,699 | 8,226 | 12,339 |
| | 309,283 | 52,996 | 161,838 | 31,683 |
| Temporary differences not recognised | (309,283) | (52,996) | (161,838) | (31,683) |
| Net deferred tax asset / (liability) | - | - | - | - |

## 5. INCOME TAX EXPENSE (CONTINUED)

**(c) Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items:

| | | | | |
|---|---|---|---|---|
| Net temporal differences | 309,283 | 52,996 | 161,838 | 31,683 |
| Tax losses revenue: | | | | |
| - Head entity | 348,064 | 341,846 | 348,064 | 341,846 |
| - Subsidiaries in tax consolidated group | 782,128 | 341,847 | 782,128 | 341,847 |
| - Other subsidiaries | - | - | - | - |
| | 1,439,475 | 736,689 | 1,292,030 | 715,376 |

**(d) Movement in recognised net deferred tax asset**

| | | | | |
|---|---|---|---|---|
| Opening balance | - | - | - | - |
| Recognised in equity | - | - | - | - |
| Recognised in income | - | - | - | - |
| Closing balance | - | - | - | - |

**(e) Tax consolidation**

Relevance of tax consolidation to the Group

The Company and its wholly-owned Australian resident entities are in a tax-consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is Reclaim Industries Limited.

Nature of tax funding arrangement

Entities within the tax-consolidated group have entered into a tax funding arrangement with the head entity. Under the terms of the tax funding arrangement, Reclaim Industries Limited and its wholly owned Australian resident entities have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the-consolidated group.

## 6. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel of the Group during the year were:

Ms Jennifer King – Non-Executive Chairperson
Mr John Crosby – Managing Director
Mr Neil Mackenzie – Non-Executive Director
Ms Elizabeth Lyons – Non-Executive Director (resigned 29 October 2008)
Mr Christopher Forrester – Executive Director (resigned 25 November 2008)
Mr Matthew Bickford-Smith – Non-Executive Director (appointed 15 December 2008 and resigned 28 April 2009)
Mr Scott Morgan – Chief Financial Officer (appointed 7 October 2008)
Mr Paul Derham – National Sales Manager (appointed 13 October 2008)
Mr Ian Robinson – General Manager SA
Mr Peter Owens – Chief Financial Officer (resigned 1 August 2008)
Mr Richard Timms – National Sales Manager (resigned 28 February 2009)

The aggregate compensation of key management personnel of the Group and the Company is set out below:

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| Short-term employee benefits | 614,477 | 587,063 |
| Post employment benefits | 54,418 | 30,236 |
| Share-based payment | (23,545) | 156,611 |
| | 645,350 | 773,910 |

## 7. REMUNERATION OF AUDITORS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Remuneration of the auditors and related entities of the parent entity for: | | | | |
| BDO Kendalls | | | | |
| - audit or review of the financial report | 13,302 | 45,581 | - | - |
| - due diligence services | - | 10,100 | - | - |
| Deloitte Touche Tohmatsu | | | | |
| - audit or review of the financial report | 57,841 | - | | |
| | 71,143 | 55,681 | - | - |

On the 27 November 2008 at the Company's Annual General Meeting the Company's shareholders approved a change in the auditor to Deloitte Touche Tohmatsu.

## 8. EARNINGS PER SHARE

| | Consolidated | |
|---|---|---|
| | 2009 | 2008 |
| | Cents per Share | Cents per Share$ |
| Basic earnings per share – loss | (2.75) | (1.0) |
| Diluted earnings per share - loss | (2.75) | (1.0) |
| Basic and diluted earnings per share | | |
| The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows: | | |
| | $ | $ |
| Earnings | (2,201,388) | (731,268) |
| Earnings used in the calculation of basic and diluted earnings per share agree directly to net loss in the income statement. | | |
| | Number | Number |
| Weighted average number of ordinary shares | 80,127,645 | 72,653,663 |
| The number of ordinary shares used in the calculation of diluted earnings per share is the same as the number used in the calculation of basic earnings per share, as share options are not considered dilutive. | | |

## 9. CASH AND CASH EQUIVALENTS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Cash at bank | 224,682 | 586,629 | 176,424 | 552,141 |
| Term Deposit | 26,000 | 580,000 | 26,000 | 580,000 |
| | 250,682 | 1,166,629 | 202,424 | 1,132,141 |

## 10. TRADE AND OTHER RECEIVABLES

| | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Trade receivables | 1,490,580 | 2,022,436 | 360,750 | 462,340 |
| Allowance for doubtful debts | (53,226) | (30,000) | - | (20,000) |
| Other | 4,490 | - | 4,490 | - |
| | 1,441,844 | 1,992,436 | 365,240 | 442,340 |
| **Non-Current** | | | | |
| Amounts receivable from: wholly-owned entities | - | - | 4,857,727 | 2,309,747 |
| Less provision for non-recovery | - | - | (4,579,134) | (1,858,073) |
| | - | - | 278,593 | 451,674 |

**a) Impaired trade receivables**

As at 30 June 2009 trade receivables of the Group and the Company with a value of $53,226 and nil respectively (2008 $30,057, and $20,761 respectively) were impaired. The amount of the provision in the Group and Company was $53,226 and nil (2008 $30,000 and $20,000).

## 10. TRADE AND OTHER RECEIVABLES (CONTINUED)

The ageing of the receivables is as follows:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| 1 to 3 months | 24,000 | 1,373 | - | 1,373 |
| 3 to 6 months | - | 6,296 | - | - |
| Over 6 months | 29,226 | 22,388 | - | 19,388 |
| | 53,226 | 30,057 | - | 20,761 |

**b) Past due trade receivables but not impaired**

As at 30 June 2009 trade receivables of the Group and the Company with a value of $201,662 and nil (2008 $97,188, and $85,777 respectively) were past due but not impaired. The amount of the provision was nil and nil (2008 nil and nil).

| | | | | |
|---|---|---|---|---|
| Up to 3 months | 172,022 | 78,512 | - | 67,101 |
| 3 to 6 months | 29,640 | 18,676 | - | 18,676 |
| | 201,662 | 97,188 | - | 85,777 |

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

**c) Movement in the allowance for doubtful debts for trade receivables**

| | | | | |
|---|---|---|---|---|
| Opening balance at 1 July 2008 | 30,000 | - | 20,000 | - |
| Additional provisions | 23,226 | 30,000 | - | 20,000 |
| Amounts used | - | - | - | - |
| Amounts written back | - | - | (20,000) | - |
| Balance at 30 June 2009 | 53,226 | 30,000 | - | 20,000 |

## 11. INVENTORIES

| | | | | |
|---|---|---|---|---|
| At cost | | | | |
| Raw materials | 598,240 | 547,103 | 176,804 | 125,270 |
| Finished goods | 140,853 | 87,780 | 70,038 | 30,969 |
| | 739,093 | 634,883 | 246,842 | 156,239 |

## 12. OTHER ASSETS

| | | | | |
|---|---|---|---|---|
| Current | | | | |
| Prepayments | 47,150 | 60,501 | - | 60,501 |
| Rent bonds | 39,000 | 82,334 | 10,834 | 41,833 |
| | 86,150 | 142,835 | 10,834 | 102,334 |

## 13. ASSOCIATED COMPANIES

The Group previously held a 50% interest in Duskview Pty Ltd which was accounted for under the equity accounting method. During the year ended 30 June 2008 the Company purchased the remaining 50% interest in Duskview Pty Ltd (refer to note 31 Acquisition of Businesses). The movement in the equity accounted investment is set out below:

| | Consolidated | |
|---|---|---|
| | 2009 | 2008 |
| | $ | $ |
| Carrying amount at the beginning of the financial year | - | 230,803 |
| Share of profit after tax | - | 16,029 |
| Acquisition of 50% makes investment wholly owned | - | (246,832) |
| Carrying amount at end of financial year | - | - |

## 14. OTHER FINANCIAL ASSETS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Investment in subsidiaries at cost | - | - | 476,866 | 476,866 |
| Provision for impairment | - | - | (139,620) | - |
| | - | - | 337,246 | 476,866 |

## 15. GOODWILL

| | | | | |
|---|---|---|---|---|
| Gross carrying amount | | | | |
| Balance at beginning of financial year | 143,119 | 143,119 | - | - |
| Additions | 240,000 | - | 240,000 | - |
| Balance at end of financial year | 383,119 | 143,119 | 240,000 | - |
| Accumulated impairment losses | | | | |
| Balance at beginning of financial year | - | - | - | - |
| Impairment losses for the year | - | - | - | - |
| Balance at end of financial year | - | - | - | - |
| Net book value | | | | |
| At the beginning of the financial year | 143,119 | 143,119 | - | - |
| At the end of the financial year | 383,119 | 143,119 | 240,000 | - |

## 15. GOODWILL (CONTINUED)

Goodwill relates to the acquisition of Duskview Pty Ltd and Budget Tyres (note 31). Goodwill has been allocated to the collections and productions cash generating unit for impairment testing purposes as an individual cash generating unit.

The recoverable amount of collections and productions was based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 20%. Cash flows beyond that five-year period have been extrapolated using no growth rate. Management believe that any reasonable possible change in the key assumptions on which the Group's recoverable amount is based would not cause the Group's carrying amount to exceed its recoverable amount.

The key assumption used in value in use calculations is budgeted income and expenses which are based on actuals immediately before the budget period increased by historical trends.

## 16. OTHER INTANGIBLE ASSETS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Other intangible assets relate to customer lists | | | | |
| **Gross carrying amount** | | | | |
| Balance at beginning of financial year | 37,600 | 37,600 | - | - |
| Additions | - | - | - | - |
| Balance at end of financial year | 37,600 | 37,600 | - | - |
| **Accumulated impairment losses** | | | | |
| Balance at beginning of financial year | (10,032) | - | - | - |
| Amortisation expense | (7,524) | (10,032) | - | - |
| Balance at end of financial year | (17,556) | (10,032) | - | - |
| **Net book value** | | | | |
| At the beginning of the financial year | 27,568 | 37,600 | - | - |
| At the end of the financial year | 20,044 | 27,568 | - | - |

## 17. CONTROLLED ENTITIES

| | Country of Incorporation | Percentage Owned (%) | |
|---|---|---|---|
| | | 2009 | 2008 |
| Parent Entity: | | | |
| Reclaim Industries Limited (i) | Australia | 100 | 100 |
| Subsidiaries of Reclaim Industries Limited: | | | |
| Playsafe Australia Pty Ltd (i) | Australia | 100 | 100 |
| Reclaim Corporation Pty Ltd (i) | Australia | 100 | 100 |
| Reclaim Energy Pty Ltd (formerly Leisuresafe Holdings Pty Ltd) (i) | Australia | 100 | 100 |
| Reclaim SA Pty Ltd (i) | Australia | 100 | 100 |
| Reclaim Asia Pty Ltd (i) | Australia | 100 | 100 |
| Duskview Pty Ltd (i) | Australia | 100 | 100 |
| Reclaim Collections Pty Ltd | Australia | 70 | 70 |

(i) These companies are members of the tax-consolidated group and Reclaim Industries Limited is the head entity of the tax-consolidated group.

## 18. PLANT AND EQUIPMENT

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Leased Assets | Motor Vehicles | Office Equipment | Plant & Equipment | Total |
| | $ | $ | $ | $ | $ |
| **Gross Carrying Amount** | | | | | |
| Balance at 1 July 2007 | 214,811 | 237,446 | 117,904 | 1,977,080 | 2,547,241 |
| Acquisition through business combinations (note 31) | - | - | - | 510,280 | 510,280 |
| Additions | 121,318 | 14,545 | 35,242 | 105,681 | 276,786 |
| Disposals | - | (22,000) | - | (60,144) | (82,144) |
| Balance at 30 June 2008 | 336,129 | 229,991 | 153,146 | 2,532,897 | 3,252,163 |
| | | | | | |
| Additions | 478,882 | 47,804 | 28,856 | 1,213,219 | 1,768,761 |
| Acquisition through business combinations (note 31) | - | - | - | 90,000 | 90,000 |
| Disposals | - | (62,544) | (42,703) | (581,329) | (686,576) |
| Balance at 30 June 2009 | 815,011 | 215,251 | 139,299 | 3,254,787 | 4,424,348 |
| | | | | | |
| **Accumulated Depreciation** | | | | | |
| Balance at 1 July 2007 | (22,662) | (102,187) | (70,383) | (1,189,736) | (1,384,968) |
| Disposals | - | 10,404 | - | 23,192 | 33,596 |
| Depreciation Expense | (40,249) | (42,348) | (23,525) | (273,810) | (379,932) |
| Balance at 30 June 2008 | (62,911) | (134,131) | (93,908) | (1,440,354) | (1,731,304) |

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Leased Assets | Motor Vehicles | Office Equipment | Plant & Equipment | Total |
| | $ | $ | $ | $ | $ |
| Disposals | - | 49,303 | 42,282 | 388,958 | 480,543 |
| Depreciation Expense | (78,199) | (33,163) | (25,511) | (286,669) | (423,542) |
| Balance at 30 June 2009 | (141,110) | (117,991) | (77,137) | (1,338,065) | (1,674,303) |
| | | | | | |
| **Net Book Value** | | | | | |
| As at 30 June 2008 | 273,218 | 95,860 | 59,238 | 1,092,543 | 1,520,859 |
| As at 30 June 2009 | 673,901 | 97,260 | 62,162 | 1,916,722 | 2,750,045 |

## 18. PLANT AND EQUIPMENT (CONTINUED)

| | Company | | | | |
|---|---|---|---|---|---|
| | Leased Assets | Motor Vehicles | Office Equipment | Plant & Equipment | Total |
| | $ | $ | $ | $ | $ |
| **Gross Carrying Amount** | | | | | |
| Balance at 1 July 2007 | 193,711 | 48,274 | 32,096 | 2,189,870 | 2,463,951 |
| Additions | 121,318 | - | 2,172 | 103,506 | 226,996 |
| Disposals | - | (7,000) | - | (60,144) | (67,144) |
| Balance at 30 June 2008 | 315,029 | 41,274 | 34,268 | 2,233,232 | 2,623,803 |
| | | | | | |
| Additions | 234,153 | - | 3,470 | 1,207,655 | 1,445,278 |
| Acquisition through business combination | - | | | | |
| Transfer to Subsidiaries | - | (30,364) | - | - | (30,364) |
| Disposals | - | - | (4,697) | (490,886) | (495,583) |
| Balance at 30 June 2009 | 549,182 | 10,910 | 33,041 | 3,040,001 | 3,633,134 |
| | | | | | |
| **Accumulated Depreciation** | | | | | |
| Balance at 1 July 2007 | (17,421) | (27,895) | (16,483) | (1,040,768) | (1,102,567) |
| Disposals | - | 7,000 | - | 23,192 | 30,192 |
| Depreciation Expense | (36,658) | (6,460) | (5,511) | (233,316) | (281,945) |
| Balance at 30 June 2008 | (54,079) | (27,355) | (21,994) | (1,250,892) | (1,354,320) |
| | | | | | |
| Transfer to subsidiaries | - | 21,637 | - | - | 21,637 |
| Disposals | - | - | 4,697 | 305,041 | 309,738 |
| Depreciation Expense | (57,054) | (4,354) | (5,206) | (252,210) | (318,824) |
| Balance at 30 June 2009 | (111,133) | (10,072) | (22,503) | (1,198,061) | (1,341,769) |
| | | | | | |
| **Net Book Value** | | | | | |
| As at 30 June 2008 | 260,950 | 13,918 | 12,274 | 982,340 | 1,269,482 |
| As at 30 June 2009 | 438,049 | 838 | 10,538 | 1,841,940 | 2,291,365 |

## 19. TRADE AND OTHER PAYABLES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Trade payables (i) | 945,307 | 1,337,723 | 342,799 | 481,004 |
| Goods and services tax payable | 28,733 | 14,174 | 5,110 | (10,290) |
| Sundry payables and accrued expenses | 206,919 | 213,084 | 110,380 | 120,628 |
| Amounts payable to subsidiaries | - | - | 900,889 | - |
| | 1,180,959 | 1,564,981 | 1,359,178 | 591,342 |

(i) The average credit period on purchases of goods is 30 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 20. PROVISIONS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Current | | | | |
| - Employee Benefits | 140,762 | 140,487 | 140,762 | 140,487 |
| - Warranty | 20,000 | 52,507 | - | - |
| | 160,762 | 192,994 | 140,762 | 140,487 |
| Non-current | | | | |
| - Employee Benefits | 39,264 | - | 39,264 | - |

| Consolidated | Warranty 2009 | Warranty 2008 |
|---|---|---|
| | $ | $ |
| Opening balance at 1 July | 52,507 | 50,000 |
| Additional provisions | 203,761 | 45,000 |
| Amounts used | (236,268) | (42,493) |
| Balance at 30 June | 20,000 | 52,507 |
| Company | | |
| Opening balance at 1 July | - | 10,000 |
| Additional provisions | - | - |
| Amounts used | - | (10,000) |
| Balance at 30 June | - | - |

Provision for warranty is made for the estimated warranty claims in respect of products sold which are still under warranty at balance date. Management estimate the provision based on historical warranty claim information and any recent trends that may suggest future claims may differ from historical amounts.

## 21. BORROWINGS

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | Note | $ | $ | $ | $ |
| **Unsecured – at amortised cost** | | | | | |
| Current | | | | | |
| Vendor Finance (i) | | 228,460 | - | 228,460 | - |
| **Secured – at amortised cost** | | | | | |
| Current | | | | | |
| Finance lease liabilities (ii) | 25 | 174,678 | 87,635 | 123,424 | 74,245 |
| Other loan (iii) | | 440,975 | - | 440,975 | - |
| **Secured – at amortised cost** | | 844,113 | 87,635 | 792,859 | 74,245 |
| **Non-current** | | | | | |
| Finance lease liabilities (ii) | 25 | 573,311 | 282,872 | 381,739 | 275,521 |
| | | 1,417,424 | 370,507 | 1,174,598 | 349,766 |

Summary of borrowing arrangements:

(i) Balance of a vendor loan remaining at balance date under an arrangement put in place to purchase the Budget Tyres business (refer note 31 Acquisition of Businesses)

(ii) Secured by the assets leased.

(iii) Loan secured by trade receivables to a finance company to provide working capital.

## 22. ISSUED CAPITAL

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| 93,710,520 (2008: 77,587,963) fully paid ordinary shares | 7,532,552 | 6,375,692 | 7,532,552 | 6,375,692 |

| | Company | | | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | Number | Number | $ | $ |
| At the beginning of the financial year | 77,587,963 | 71,962,653 | 6,375,692 | 5,706,546 |
| Share transactions: | | | | |
| - 29 April 2008 (i) | - | 100,000 | - | - |
| - 1 Jan 2008 (ii) | - | 1,379,310 | - | 200,000 |
| - 28 May 2008 (iii) | - | 5,000,000 | - | 500,000 |
| - 24 June 2008 (iv) | - | (854,000) | - | (854) |
| - 5 May 2009 (v) | 1,735,941 | - | 112,836 | - |
| - 8 May 2009 (vi) | 15,384,616 | - | 1,000,000 | - |
| - 30 June 2009 (vii) | (998,000) | - | (998) | - |
| Transaction costs: | - | - | (26,978) | (30,000) |
| Transfer from share-based payments reserve for shares issued to employees that were released from escrow (note 23) | - | - | 72,000 | - |
| Balance at end of financial year | 93,710,520 | 77,587,963 | 7,532,552 | 6,375,692 |

(i) On 29 April 2008 the Company issued 100,000 ordinary shares under its Employee Share Plan.

(ii) On 29 April 2008 the Company issued 1,379,310 ordinary shares as consideration for the remaining 50% of the issued capital of Duskview Pty Ltd.

(iii) On 28 May 2008 the Company issued 5,000,000 ordinary shares through a placement at 10 cents per share.

(iv) On 24 June 2008 the Company bought back 854,000 shares under its Employee Share Plan.

(v) On 5 May 2009 the Company issued 1,735,941 ordinary shares applied for by shareholders under a 1 for 2 non-renounceable rights issue.

(vi) On 8 May 2009 the Company issued 15,384,616 ordinary shares to the underwriters of the 1 for 2 non-renounceable rights issue.

(vii) On 30 June 2009 the Company bought back 998,000 shares under its Employee Share Plan.

Changes to the then Corporations Law abolished the authorised capital and par value concept in 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. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

## 23. RESERVES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Equity-Settled Employee Benefits Reserve** | $ | $ | $ | $ |
| Balance at beginning of financial year | 280,091 | 91,056 | 280,091 | 91,056 |
| Share-based payment | 12,886 | 189,035 | 12,886 | 189,035 |
| Transfer to share capital | (72,000) | - | (72,000) | - |
| Value of share options cancelled prior to vesting of the share option | (30,918) | - | (30,918) | - |
| Balance at end of financial year | 190,059 | 280,091 | 190,059 | 280,091 |

## 23. RESERVES (CONTINUED)

The equity-settled employee benefits reserve arises on the grant of share options to employees under the Employee Share Option Plan and shares granted to employees and directors which are held under escrow. Amounts are transferred out of the reserve and into issued capital when the options are exercised and shares come out of escrow. Further information about share based payments made under the plan are shown in note 32 to the financial statements.

## 24. ACCUMULATED LOSSES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Accumulated Losses | $ | $ | $ | $ |
| Balance at beginning of financial year | (3,351,551) | (2,620,283) | (3,706,302) | (3,033,906) |
| Loss for the year attributable to members of the parent entity | (2,201,388) | (731,268) | (3,165,504) | (672,396) |
| Balance at end of financial year | (5,552,939) | (3,351,551) | (6,871,806) | (3,706,302) |

## 25. CAPITAL AND LEASING COMMITMENTS

| Operating Leases | | | | |
|---|---|---|---|---|
| Commitments for minimum lease payments in relation to non-cancellable operating leases are as follows: | | | | |
| Within one year | 421,978 | 150,000 | 407,178 | 150,000 |
| Later than one year but not five years | 450,519 | - | 450,519 | - |
| Commitments not recognised in the financial statements | 872,497 | 150,000 | 857,697 | 150,000 |

**Leasing arrangements**

Operating leases relate to rent of building with lease terms of 3 to 5 years, with an option to extend for a further 3 years. All operating lease contracts contain market review clauses in the event that the Group/Company exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

| Financing Leases | | | | |
|---|---|---|---|---|
| Commitments in relation to finance leases are payable as follows: | | | | |
| Within one year | 234,403 | 117,722 | 160,022 | 101,349 |
| Later than one year but not later than five years | 650,356 | 242,278 | 429,722 | 233,024 |
| Later than five years | - | 85,730 | - | 85,734 |
| Minimum lease payments | 884,759 | 445,730 | 589,744 | 420,107 |
| Less future finance charges | (136,770) | (75,223) | (84,581) | (70,341) |
| Recognised as a liability | 747,989 | 370,507 | 505,163 | 349,766 |
| Representing lease liabilities | | | | |
| Current (note 21) | 174,678 | 87,635 | 123,424 | 74,245 |
| Non-current (note 21) | 573,311 | 282,872 | 381,739 | 275,521 |
| | 747,989 | 370,507 | 505,163 | 349,766 |

## 26. CONTINGENT LIABILITIES

The directors are of the opinion that there are no contingent liabilities as at 30 June 2009.

## 27. SEGMENT REPORTING

The economic entity operates predominantly in one business segment being the manufacture of recycled rubber and its associated products in Australia only.

## 28. CASH FLOW INFORMATION

**a) Reconciliation of Cash Flow from Operations with Loss after Income Tax**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Loss after income tax | (2,213,287) | (717,372) | (3,165,504) | (672,396) |
| Non-cash flows in profit: | | | | |
| Interest received | (27,868) | (59,603) | (1,638) | (623) |
| Depreciation and amortisation | 431,066 | 389,964 | 318,824 | 281,945 |
| Amortisation of government grant | (4,834) | - | (4,834) | - |
| Allowance for doubtful debts | - | - | 2,721,061 | - |
| Impairment of investments in subsidiaries | - | - | 139,620 | - |
| Loss / (gain) on disposal of fixed assets | 202,533 | (12,197) | 182,345 | (48,856) |
| Employee share plan | (18,032) | 189,035 | (18,032) | 189,035 |
| (Increase)/decrease in trade and term receivables | 550,592 | (137,217) | 77,100 | (245,429) |
| (Increase)/decrease in inventories | (104,210) | 91,461 | (90,607) | (18,312) |
| (Increase)/decrease in other operating assets | 56,685 | (29,908) | 91,500 | (41,833) |
| Increase/(decrease) in trade payables and accruals | (280,280) | (482,054) | (133,050) | (278,681) |
| Increase/(decrease) in provisions | 14,533 | (95,710) | 39,539 | (10,000) |
| Cashflow from operations | (1,393,102) | (863,601) | 156,324 | (845,150) |

**b) Non Cash Financing & Investing Activities**

Under a Share Sale Agreement dated 1 January 2008, the vendors of Duskview Pty Ltd were issued 1,379,310 Ordinary Fully Paid shares in Reclaim Industries Limited at a price of 14.5 cents per share, as part consideration for the sale of the remaining 50% of the issued capital of Duskview Pty Ltd. Refer to note 31 for additional information.

During the current financial year the Group acquired $478,882 (2008: $121,318) of equipment under a finance lease. This acquisition will be reflected in the cash flow statement over the term of the finance lease via lease repayments.

**c) Financing Facilities**

| | | | | |
|---|---|---|---|---|
| Secured invoice discounting facility: | | | | |
| • amount used | 440,975 | - | 440,975 | - |
| • amount unused | 1,059,025 | - | 1,059,025 | - |
| | 1,500,000 | - | 1,500,000 | - |
| Secured asset finance facility: | | | | |
| • amount used | - | - | - | - |
| • amount unused | 250,000 | - | 250,000 | - |
| | 250,000 | - | 250,000 | - |

## 29. SUBSEQUENT EVENTS

Other than as mentioned below, there have not been any matters or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the of the consolidated entity in future financial years.

- On 28 September 2009 the Company signed an agreement to acquire the inventory and the majority of the plant and equipment associated with the former Renaza tyre processing facility in New South Wales for a purchase price of $621,000.

  The Company will also enter into a 3 year lease agreement on the premises where the equipment is currently located in Fairfield NSW.

  This transaction will result in the Company securing a high quality car tyre processing facility on the east coast capable of producing 2,400 tonnes of rubber per annum. The site will also be able to produce coloured rubber product.

  This will make the Company the only Australian company with the capacity to produce crumbed rubber in three states and coloured rubber in two states within Australia.

  The Company expects to commence operation from the Fairfield site in early October 2009.
- During August 2009 the Company has successfully negotiated an additional finance facility which is yet to be drawn down. The facility is a trade debtors factoring facility which enables the Company to drawdown up to 80% of the trade debtors up to an additional amount of $400,000. The debtor factoring facility is initially for a twelve month period and then continues until either party gives notice (3 months) to terminate the facility.

## 30. RELATED PARTY TRANSACTIONS

a) **Equity interests in related parties**

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 19 to the financial statements.

b) **Key management personnel compensation**

Details of key management personnel compensation are disclosed in note 6 to the financial statements.

c) **Key management personnel equity holdings**

Fully paid ordinary shares issued by Reclaim Industries Limited to key management personnel are as follows:

| | Balance at 1 July 2008 | Rights issued | Net other changes | Balance at 30 June 2009 | Balance held Nominally |
|---|---|---|---|---|---|
| 2009 | Number | | Number | Number | Number |
| DIRECTORS | | | | | |
| Ms J King | 15,565,445 | 9,230,769 (i) | - | 24,796,214 | - |
| Mr J Crosby | 7,729,961 | 6,153,847 (i) | 165,000 | 14,048,808 | - |
| Mr N Mackenzie | - | - | - | - | - |
| Ms E Lyons | 100,000 | - | (100,000) (ii) | - | - |
| Mr C Forrester | 1,580,797 | - | (1,580,797) (ii) | - | - |
| Mr M Bickford-Smith | - | - | - | - | - |
| KEY MANAGEMENT PERSONAL | | | | | |
| Mr S Morgan | - | - | - | - | - |
| Mr P Derham | - | - | - | - | - |
| Mr I Robinson | - | - | 344,827 | 344,827 | - |
| Mr P Owens | 200,000 | - | (200,000) | - | - |
| Mr R Timms | - | - | - | - | - |

(i) Full amount of these issues are as a result of shares issued under the underwriting agreement associated with the rights issue 5 May 2009.

(ii) Director resigned during the year resulting in a nil closing balance.

## 30. RELATED PARTY TRANSACTIONS (CONTINUED)

| | Balance at 1 July 2007 | Net other changes | Balance at 30 June 2008 | Balance held Nominally |
|---|---|---|---|---|
| 2008 | Number | Number | Number | Number |
| DIRECTORS | | | | |
| Ms J King | - | 15,565,445 | 15,565,445 | - |
| Mr J Crosby | - | 7,729,961 | 7,729,961 | - |
| Mr C Forrester | 1,529,047 | 51,750 | 1,580,797 | - |
| Ms E Lyons | 100,000 | | 100,000 | - |
| Mr N Mackenzie | - | - | - | - |
| Mr R Timms | - | - | - | - |
| Mr L Atkins | - | - | - | - |
| KEY MANAGEMENT PERSONAL | | | | |
| Mr C Battel | 310,000 | (310,000) | - | - |
| Mr P Owens | 200,000 | - | 200,000 | - |
| Mr J Lang | 100,000 | (100,000) | - | - |

Options issued by Reclaim Industries Limited to key management personnel are as follows:

| | Balance 1 July 2008 | Granted as compensation | Cancelled during the year | Balance 30 June 2009 | Balance vested at 30 June 2009 | Vested and exercisable | Vested but not exercisable | Options vested during year |
|---|---|---|---|---|---|---|---|---|
| 2009 | Number | Number | Number | Number | Number | Number | Number | Number |
| DIRECTORS | | | | | | | - | - |
| Ms J King | - | - | - | - | - | - | - | - |
| Mr J Crosby | - | - | - | - | - | - | - | - |
| Mr N Mackenzie | - | - | - | - | - | - | - | - |
| Ms E Lyons | 100,000 | - | - | 100,000 | 100,000 | 100,000 | - | - |
| Mr C Forrester | 2,340,000 | - | 1,170,000 | 1,170,000 | 1,170,000 | 1,170,000 | - | - |
| Mr M Bickford-Smith | - | - | - | - | - | - | - | - |
| KEY MANAGEMENT PERSONAL | | | | | | | | |
| Mr S Morgan | - | - | - | - | - | - | - | - |
| Mr P Derham | - | - | - | - | - | - | - | - |
| Mr I Robinson | - | - | - | - | - | - | - | - |
| Mr P Owens | 200,000 | - | - | 200,000 | 200,000 | 200,000 | - | - |
| Mr R Timms | - | - | - | - | - | - | - | - |

## 30. RELATED PARTY TRANSACTIONS (CONTINUED)

| | Balance 1 July 2007 | Granted as compensation | Cancelled during the year | Balance 30 June 2008 | Balance vested at 30 June 2008 | Vested and exercisable | Vested but not exercisable | Options vested during year |
|---|---|---|---|---|---|---|---|---|
| 2008 | Number | Number | Number | Number | Number | Number | Number | Number |
| DIRECTORS | | | | | | | - | - |
| Ms J King | - | - | - | - | - | - | - | - |
| Mr J Crosby | - | - | - | - | - | - | - | - |
| Mr C Forrester | | 2,340,000 | - | 2,340,000 | 2,340,000 | 2,340,000 | | |
| Ms E Lyons | 100,000 | - | - | 100,000 | 100,000 | 100,000 | - | - |
| Mr N Mackenzie | | | | | | | | |
| Mr R Timms | - | - | - | - | - | - | - | - |
| Mr L Atkins | - | 1,260,000 | - | 1,260,000 | 1,260,000 | 1,260,000 | - | - |
| KEY MANAGEMENT PERSONAL | | | | | | | | |
| Mr C Battel | - | - | - | - | - | - | - | - |
| Mr P Owens | 200,000 | - | - | 200,000 | 200,000 | 200,000 | - | - |

**(d) Transactions with Related Parties**

(i) Rent paid by the Group and company to Lloyd Price Carnavon Pty Ltd (an entity associated with Ms J King) on normal terms and conditions $178,801 (2008: $165,000)

(ii) Rent paid by the Group to Ag Management Pty Ltd (an entity associated with Mr J Crosby) on normal terms and conditions $48,950 (2008: nil)

(iii) Consulting services paid by the Group to Neil MacKenzie a director of a subsidiary on normal business conditions for $5,500 (2008: nil)

(iv) Ms J King and Mr J Crosby underwrote the rights issue occurring 5 May 2009 to the value of $1 million. Due to the shortfall in the rights issue 9,230,769 shares valued at $600,000 were issued to Ms J King and 6,153,847 shares valued at $400,000 were issued to Mr J Crosby.

**(e) Transactions with Related Parties**

The ultimate parent entity in the wholly-owned Group is Reclaim Industries Limited. Amounts receivable from and payable to the controlled entities are disclosed in note 10 and 19 respectively.

During the financial year Reclaim Industries Limited provided to subsidiaries:

- Accounting and administrative services at no cost
- The advancement of interest free advances
- Sold goods at cost to controlled entities (note 3)
- Sold plant and equipment at its written down value (note 18)

Transfer of tax losses have been transferred to Reclaim Industries Limited for no consideration.

## 31. ACQUISITION OF BUSINESSES

On 27 February 2009 Reclaim, purchased the tyre collection business of Budget Tyres in South Australia for a total consideration of $330,000 to be paid over 13 monthly instalments of $25,385 each.

Details of the fair value of the net assets acquired and the consideration paid are set out below:

| | Book Value | Fair Value Adjustment | Fair Value |
|---|---|---|---|
| | $ | $ | $ |
| Plant and equipment acquired | 90,000 | - | 90,000 |

| | $ |
|---|---|
| Cost of acquisition | 330,000 |
| Fair value of assets acquired | (90,000) |
| Goodwill | 240,000 |
| **Net cash flow on acquisition** | |
| Total purchase consideration | 330,000 |
| Less: Vendor Finance | (330,000) |
| Consideration paid in cash | - |

On 1 January 2008 Reclaim purchased 50% of the issued capital of Duskview Pty Ltd for a consideration of $250,000 resulting in Duskview Pty Ltd becoming a wholly owned subsidiary. Previously Reclaim accounted for its investment in Duskview Pty Ltd under the equity accounting method.

Details of the fair value of the net assets acquired and the consideration paid are set out below:

| | Book Value | Fair Value Adjustment | Fair Value |
|---|---|---|---|
| | $ | $ | $ |
| Plant and equipment | 510,280 | - | 510,280 |
| Trade Debtors | 167,217 | - | 167,217 |
| Trade creditors | (113,058) | - | (113,058) |
| Lease Liabilities | (135,174) | - | (135,174) |
| Provisions | (18,816) | - | (18,816) |
| Bank | (2,619) | - | (2,619) |
| Loans | (56,565) | - | (56,565) |
| Other | (796) | - | (796) |
| Net assets acquired | 350,469 | - | 350,469 |

| | $ |
|---|---|
| Cost of acquisition | |
| - original acquisition | 226,957 |
| - controlling interest | 250,000 |
| | 476,957 |
| Fair value of net assets acquired | 350,469 |
| Less: Adjustment for previous held interest | (16,631) |
| | 333,838 |
| Goodwill | 143,119 |
| **Net cash flow on acquisition** | |
| Total purchase consideration | 476,957 |
| Less: Previously held interest (acquired in previous period) | (226,957) |
| Less: Amount paid in shares | (200,000) |
| Cash outflow on acquisition | 50,000 |

## 32. SHARE OPTION PLANS AND EMPLOYEE SHARE SCHEME

*Share Options*

The Group has an ownership-based compensation plan for executives and employees. In accordance with the provisions of the Employee Share Option Plan, as approved by shareholders at an annual general meeting, directors may issue options to purchase shares in the Company to executives and employees at an issue price determined by the market price of ordinary shares at the time the option is granted. No directors participate in the Employee Share Option Plan.

In accordance with the terms of the Employee Share Option Plan, options vest at grant date and may be exercised at any time from the date of their issue to the date of their expiry.

Share options are not listed, carry no rights to dividends and no voting rights.

The following share based payment arrangements were in existence during the financial year:

| Options | Number | Grant Date | Expiry Date | Exercise Price | Fair Value at Grant Date |
|---|---|---|---|---|---|
| **Employee Share Option Plan** | | | | | |
| April 2007 | 200,000 | 17/04/2007 | 30/06/2010 | 0.20 | 0.0473 |
| **Directors Options** | | | | | |
| December 2006 | 100,000 | 29/12/2006 | 30/06/2010 | 0.20 | 0.0350 |
| December 2007 | 1,200,000 | 10/12/2007 | 30/06/2010 | 0.20 | 0.0407 |
| December 2007 | 1,200,000 | 10/12/2007 | 30/06/2011 | 0.30 | 0.0362 |
| December 2007 | 1,200,000 | 10/12/2007 | 30/06/2011 | 0.40 | 0.0266 |

The weighted average of fair value of options granted during the year is nil (2008: $0.0345) per option. Options were valued using the Black-Scholes model using the following inputs:

| | Option Series | | |
|---|---|---|---|
| | December 2007 | December 2007 | December 2007 |
| Grant date share price | 0.14 | 0.14 | 0.14 |
| Exercise price | 0.20 | 0.30 | 0.40 |
| Calculated volatility | 16.4% | 16.4% | 16.4% |
| Option expiry | 30 June 2010 | 30 June 2011 | 30 June 2011 |
| Risk free interest rate | 6.58% | 6.51% | 6.51% |

The following reconciles the outstanding share options granted under the Plan at the beginning and end of the financial year:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price $ | Number of options | Weighted average exercise price $ |
| Balance at beginning of financial year | 3,900,000 | 0.292 | 7,500,000 | 0.296 |
| Granted during the financial year | - | - | - | - |
| Exercised during the financial year | - | - | - | - |
| Lapsed during the financial year | - | - | - | - |
| Cancelled during the financial year | (1,170,000) | 0.366 | (3,600,000) | 0.30 |
| Balance at the end of financial year (i) | 2,730,000 | 0.260 | 3,900,000 | 0.292 |

(i) Options outstanding at the end of the financial year

The share options outstanding at the end of the financial year had an average exercise price of $0.26 (2008: $0.292) and a weighted average remaining contractual life of 529 days (2008: 955 days).

## 32. SHARE OPTION PLANS AND EMPLOYEE SHARE SCHEME (CONTINUED)

*Employee Share Scheme*

A scheme under which shares may be issued to employees for no cash consideration was approved by shareholders at the 2006 annual general meeting. All Australian resident employees (excluding directors) are eligible to participate in the scheme. Employees may elect not to participate in the scheme.

The invitation to participate, the number of shares and the issue price of the shares are at the full discretion of the board as detailed under the Reclaim Industries Employee Share Plan Rules.

Under the Employee Share Scheme shares were issued to key management personnel on 17 April 2007 in two tranches and are subject to continuity of service requirements through to 30 June 2009 and to continuity of service requirements through to 30 June 2011. The shares are held in escrow until the continuity of service requirement is met.

Each participant was issued with shares at a value of 12 cents per share on 17 April 2007.

| | Number of shares | |
|---|---|---|
| | 2009 | 2008 |
| Balance at beginning of financial year | 1,828,000 | 2,215,000 |
| Released from escrow | (320,000) | - |
| Cancelled during the financial year | (998,000) | (387,000) |
| Balance at the end of financial year | 510,000 | 1,828,000 |

## 33. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

Various Standards and Interpretations were on issue but were not yet effective at the date of authorisation of the financial report. The issue of these Standards and Interpretations does not affect the Group's present policies and operations. The directors anticipate that the adoption of these Standards and Interpretations in future periods will not materially affect the amounts recognised in the financial statements of the Group and the Company but may change the disclosure presently made in the financial statements of the Group or the Company.

## 34. COMPANY DETAILS

**The registered office and principal place of business of the Company is:**

67 Miguel Road
Bibra Lake WA 6163

# DIRECTOR'S DECLARATION

The directors declare that:

(a) 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;

(b) In the directors' opinion, the financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and consolidated entity; and

(c) The directors have been given the declaration required by Section 295A of the Corporation Act 2001.

Signed in accordance with a resolution of the directors made pursuant to Section 295(5) of the Corporations Act 2001.

**Mr John Crosby**
**Managing Director**

30th September 2009

Deloitte.

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# Independent Auditor's Report to the members of Reclaim Industries Limited

## Report on the Financial Report

We have audited the accompanying financial report of Reclaim Industries Limited which comprises the balance sheet as at 30 June 2009 and the income statement, cash flow statement and statement of recognised income and expense for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 16 to 48.

*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 ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's Responsibility*

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

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

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

*Auditor's Independence Declaration*

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

*Auditor's Opinion*

In our opinion:

(a) the financial report of Reclaim Industries Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the company's 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*; and

(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 1 in the financial report which indicates that for the year ended 30 June 2009 the consolidated entity and the company incurred a net loss of $2,213,287 and $3,165,504 respectively and used net cash in / (provided by) operating activities of $1,393,102 and ($156,324) respectively. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's and the company's ability to continue as going concerns and whether they will realise their assets and extinguish their 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 8 to 14 of the directors' report 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 section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the Remuneration Report of Reclaim Industries Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu.

DELOITTE TOUCHE TOHMATSU

J Handel

J J Handel
Partner
Chartered Accountants
Adelaide, 30 September 2009

# CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Reclaim Industries Limited (Reclaim or Company) is responsible for the corporate governance of the economic entity. The Board guides and monitors the business and affairs of Reclaim on behalf of the shareholders by whom they are elected and to whom they are accountable.

In August 2007 the ASX Corporate Governance Council (the Council) released a revised edition of the Corporate Governance Principle and Recommendations. This revised edition contains 8 principles for good corporate governance. The Council recognised that not all recommendations are appropriate for all companies and companies should only adopt those recommendations that are suitable in each individual case.

During the year ended 30 June 2009, the Company adopted most of the corporate governance initiatives, however due to the current size, structure and activities of the Company, the Board resolved not to adopt some of the Council's recommendations at that stage. The Board continues to review this position as the Company grows, to determine whether and at what point it is appropriate to adopt these recommendations.

The ASX Listing Rule 4.10.3 requires that the Company disclose the extent to which it has followed best practice recommendations, identify which recommendations have not been followed, and the reason for not adopting the recommendations.

## 1. FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Company has formalised and disclosed the roles and responsibilities of the board and those delegated to senior management, in its Board Charter.

The responsibilities of the Board include determining and monitoring the objectives and strategic direction of Reclaim, monitoring the performance of the Company and its senior executives, approving business plans and budgets, and developing and ensuring adherence to Company policies. The Board is also responsible for compliance with the codes of conduct, overseeing risk management and internal controls, and the assessment, appointment and removal of the Chief Executive Officer, Company Secretary and other senior executives.

The senior management are responsible for the efficient and effective operation of the Company in accordance with the objectives, strategies and policies determined by the Board.

## 2. STRUCTURE THE BOARD TO ADD VALUE

The composition of the Board shall be determined in accordance with the following principles and guidelines:

(a) the Board shall comprise at least three Directors, increasing where additional expertise is considered desirable in certain areas;

(b) the Board should not comprise a majority of executive Directors; and

(c) Directors should bring characteristics, which allow a mix of qualifications, skills and experience both nationally and internationally.

The terms and conditions of the appointment and retirement of Directors will be set out in a letter of appointment which covers remuneration, expectations, terms, the procedures for dealing with conflicts of interest and the availability of independent professional advice.

The composition of the Board is reviewed on an ongoing basis to ensure that the Board has an appropriate balance of experience and expertise.

Board is responsible for developing the culture of the organisation, including the performance focus and the legal, ethical and moral conduct, to preserve and enhance Reclaim's reputation in the recycling industry, business generally and the broader community.

The Directors in office at the date of this Annual Report are:

| Name and Qualification | | Date of Appointment |
|---|---|---|
| Ms Jennifer King | Non-Executive Chairperson | Appointed as non-executive Chairperson on 22 January 2008. |
| Mr John Crosby | Managing Director | Appointed as non-executive director 11 April 2008. Appointed as Managing Director 1 May 2008. |
| Mr Neil Mackenzie | Independent Non-Executive Director | Appointed as non-executive director 11 April 2008. |

Details on the relevant skills and experience, and term of office of each of the directors are set out in the Director's Report.

## 2. STRUCTURE THE BOARD TO ADD VALUE (CONTINUED)

The Council recommends that a Board of Directors should comprise a majority of independent Directors. Reclaim has adopted the position that, to be considered independent, a director must be a non-executive, and:

(a) not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;

(b) is not employed, and within the last 3 years, has not been employed in an executive capacity by the Company or another Group member, or been a director after ceasing to hold any such employment;

(c) within the last 3 years, not have not been a principal of a material professional adviser or a material consultant to the Company or another Group member, or an employee materially associated with the service provider;

(d) not be a material supplier or customer of the Company or other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or

(e) have no material contractual relationship with the Company or another Group member other than as a director of the Company.

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 10% of the appropriate base amount is considered to be quantitatively material for these purposes, whilst an amount of less than 5% is considered to be quantitatively immaterial. Qualitative factors considered include the nature of the relationship and its strategic importance, the competitive landscape, the contractual arrangements, and other factors indicating the ability of the director to exercise unfettered and independent judgement.

Reclaim's Board composition does not follow the ASX recommendations, in that a majority of directors are not independent due to the small number of directors currently on the board. Whilst the Company intends to progressively increase the independence of its directors as it grows over time, compliance with the best practice recommendations in this area is not considered a current imperative, due to the skill set of existing directors and senior executives, and the cost of appointing additional directors.

The Council recommends that companies establish a Nomination Committee to assess the necessary competencies of Board members, review Board succession plans, evaluate Board performance, and make recommendations for the appointment and removal of Board members. Having regard to the Company's size and composition of the board, the Board considers that this role is more efficiently undertaken within the auspices of the full board. A charter equivalent to a Nomination Committee Charter has been adopted to provide guidance to the Board in its oversight of this function.

## 3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

The Company has developed a Code of Conduct which requires that all employees are aware of, and comply with, legislation and policies applicable to their position. The Code also requires employees to avoid or ensure proper management of conflicts of interest, to not use confidential information for personal gain, and to generally operate in a fair, honest and open manner.

In accordance with the Council's recommendations Reclaim has established a share trading policy. Directors, senior managers, employees and related parties (being persons connected with them who are likely to be influenced by the directors/employees in their decision making) shall not trade in the Company's securities nor place themselves under suspicion of trading in the Company's securities while in possession of unpublished price sensitive information.

## 4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Council's recommendation is that companies establish an Audit Committee. A further recommendation is that the committee comprises of at least three members, who are only non-executive directors, with a majority being independent, and being chaired by an independent chairman who is not also chairman of the board. However, due to the small size and structure of the Board, it was decided that no additional benefits or efficiencies would be achieved by establishing a separate Audit Committee. Accordingly, the full Board carried out the duties otherwise undertaken by an Audit Committee. A charter equivalent to an Audit Committee Charter has been adopted to provide guidance to the Board in its oversight of this function.

During the year ended 30 June 2009, the Company had an informal risk oversight and management policy and internal compliance and control systems. Reclaim has continued the process of formalising the policy and systems, taking into account the size of the Company and the nature of its activities. This formalisation process has not yet been completed.

## 5. MAKE TIMELY AND BALANCED DISCLOSURE

The Company has established procedures to ensure compliance with ASX Listing Rule disclosure requirements. The Board is aware of the continuous disclosure requirements and any such matters are discussed at the monthly Board meeting.

The Company Secretary is responsible for communications with the ASX including ensuring compliance with the continuous disclosure requirements.

Announcements made to the ASX are also published on the Company's website.

## 6. SHAREHOLDER COMMUNICATION

Reclaim endeavours to provide shareholders with important information on the Company in a timely and efficient manner. The Company has continued to increase and improve the information available to shareholders on its website which has recently been redesigned.

Shareholders are informed of the activities of the Company through its Quarterly Report, Annual Report, and other market disclosures. Shareholders are also encouraged to attend Reclaim's Annual General Meeting. The Company's auditor is required to attend its Annual General Meeting.

The Company has adopted a shareholder communications policy to formalise the above practices.

## 7. RECOGNISE AND MANAGE RISK

The Board has established a policy in relation to risk management and oversight. This risk management policy is designed to ensure that strategic, operational, legal, business and financial risks are identified, assessed, addressed and monitored to assist the economic entity to achieve its business objectives.

During the year ended 30 June 2009, the Company had an informal risk oversight and management policy and internal compliance and control systems. Reclaim has continued the process of formalising the policy and systems, taking into account the size of the Company and the nature of its activities. The board recognises its responsibility for identifying areas of significant business risk and ensuring that adequate measures are in place for managing these risks.

The Executive Director and Chief Financial Officer provide a semi annual written statement to the Board confirming that:

(a) the statement provided by the Executive Director and Chief Financial Officer to the Board regarding the Company's financial condition and operational results is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and

(b) the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

## 8. REMUNERATE FAIRLY AND RESPONSIBLY

The board has established a remuneration policy. The performance of the Board and key executives is to be reviewed against both quantitative and qualitative indicators, which are aligned with the financial and non-financial objectives of Reclaim.

The Councils recommendation is that companies establish a Remuneration Committee. Having regard to the Company's size and composition of the Board, the Board considers that this role is more efficiently undertaken within the auspices of the full Board. A charter equivalent to an Remuneration Committee Charter has been adopted to provide guidance to the Board in its oversight of this function.

Where the Company has a requirement for additional services within the skill set of non-executive directors, and it is efficient and effective to do so, the Board may seek consulting services from the non-executive Directors at a market rate approved by the Board.

The remuneration of executive directors and other senior executives is reviewed annually by the Board, having regard to personal and corporate performance on a short term and long term basis, and to relative industry remuneration levels. Where appropriate, the Board will seek independent advice to ensure appropriate remuneration levels are in place.

The remuneration of non-executive Directors is determined by the Board within the maximum amount approved by shareholders of $250,000 per annum. Non-executive directors are not entitled to retirement benefits other than statutory superannuation, and do not participate in share or bonus schemes tailored for executives and other employees, but may receive allocations of incentive shares and options, subject to shareholder approval. The Company does not currently operate any schemes which provide for retirement benefits for non-executive directors.

Further details on directors' and executives' remuneration and directors' qualifications are set out in the Directors' Report.

# ASX ADDITIONAL INFORMATION

Additional information required by the ASX Limited Listing Rules not disclosed elsewhere in this Annual Report is set out below.

## 1. SHAREHOLDINGS

The issued capital of the Company as at 30 September 2009 is 93,710,520 ordinary fully paid shares. All issued ordinary fully paid shares carry one vote per share. There are no listed options. The number of ordinary shares subject to voluntary escrow is 854,828 (344,828 ordinary shares escrowed until 31 December 2009, 510,000 ordinary shares escrowed until 30 June 2011).

**Ordinary Shares**

| Shares Range | Holders | Units | % |
|---|---|---|---|
| 1-1,000 | 846 | 284,914 | 0.30 |
| 1,001-5,000 | 263 | 568,178 | 0.61 |
| 5,001-10,000 | 106 | 717,620 | 0.77 |
| 10,001-100,000 | 356 | 7,714,240 | 8.23 |
| 100,001-9,999,999 | 94 | 84,425,568 | 90.09 |
| **Total** | **1,665** | **93,710,520** | **100.00** |

| Shareholders by Location | No. of Holders | No. of Shares |
|---|---|---|
| Australian holders | 1,556 | 92,747,446 |
| Overseas holders | 109 | 963,074 |
| **Total** | **1,665** | **93,710,520** |

**Unmarketable parcels**

There were 1,178 holders of less than a marketable parcel of ordinary shares.

## 2. TOP 20 SHAREHOLDERS AS AT 30 SEPTEMBER 2009

| | Name | Number of Shares | % |
|---|---|---|---|
| 1 | Crosby JR + Fisher MJ | 7,205,883 | 7.69 |
| 2 | Crosby JR + Fisher MJ <Crosby Fam S/F A/C> | 6,950,961 | 7.42 |
| 3 | King Jennifer Anne | 6,529,145 | 6.97 |
| 4 | Lloyd Price Carnarvon PL <King S/F A/C> | 6,464,370 | 6.90 |
| 5 | Knowles Keith | 5,009,590 | 5.35 |
| 6 | Rexfam Trading PL | 4,893,971 | 5.22 |
| 7 | Jemaya PL <JH Featherby S/F A> | 4,152,500 | 4.43 |
| 8 | Parks Aust Pl | 4,119,887 | 4.40 |
| 9 | King Timothy John | 3,486,469 | 3.72 |
| 10 | Blake Tracey Ann | 3,159,677 | 3.37 |
| 11 | Saggers Tom | 2,810,000 | 3.00 |
| 12 | Lloyd Price Carnarvon PL <EBI Unit A/C> | 2,675,080 | 2.85 |
| 13 | Coultas Donald Norman | 2,200,000 | 2.35 |
| 14 | Gordon David R +LM <Gordon S/F A/C> | 2,080,332 | 2.22 |
| 15 | Waddell Denis P + FL <DP Waddell S/F A/C> | 1,875,000 | 2.00 |
| 16 | Tarney Hldgs PL | 1,250,000 | 1.33 |
| 17 | Amzalak Benjamin | 1,148,000 | 1.23 |
| 18 | Acumen Eng PL | 1,000,000 | 1.07 |
| 19 | Fleming William + C <Aceriver S/F A/C> | 1,000,000 | 1.07 |
| 20 | Hendricus PL <Perth Select S'Foo> | 1,000,000 | 1.07 |
| | | **69,010,865** | **73.64** |

## 3. SUBSTANTIAL SHAREHOLDERS AS AT 30 SEPTEMBER 2009

| | Name | Number of Shares | % |
|---|---|---|---|
| 1 | Jennifer King, Rexfam Pty Ltd, Lloyd Price Carnavon Pty Ltd, Janny Pty Ltd, Estate of the Late Tim King, JA King, JA Norris, TJ King, King Superfund | 24,796,214 | 26.46 |
| 2 | Crosby John & Fisher Mary-Jo | 14,156,844 | 15.10 |
| 3 | Knowles, Keith, Parks Australia Pty Ltd, Edna Knowles, Parks Australia Superfund A/C | 8,028,050 | 10.34 |

## 4. UNQUOTED EQUITY SECURITIES

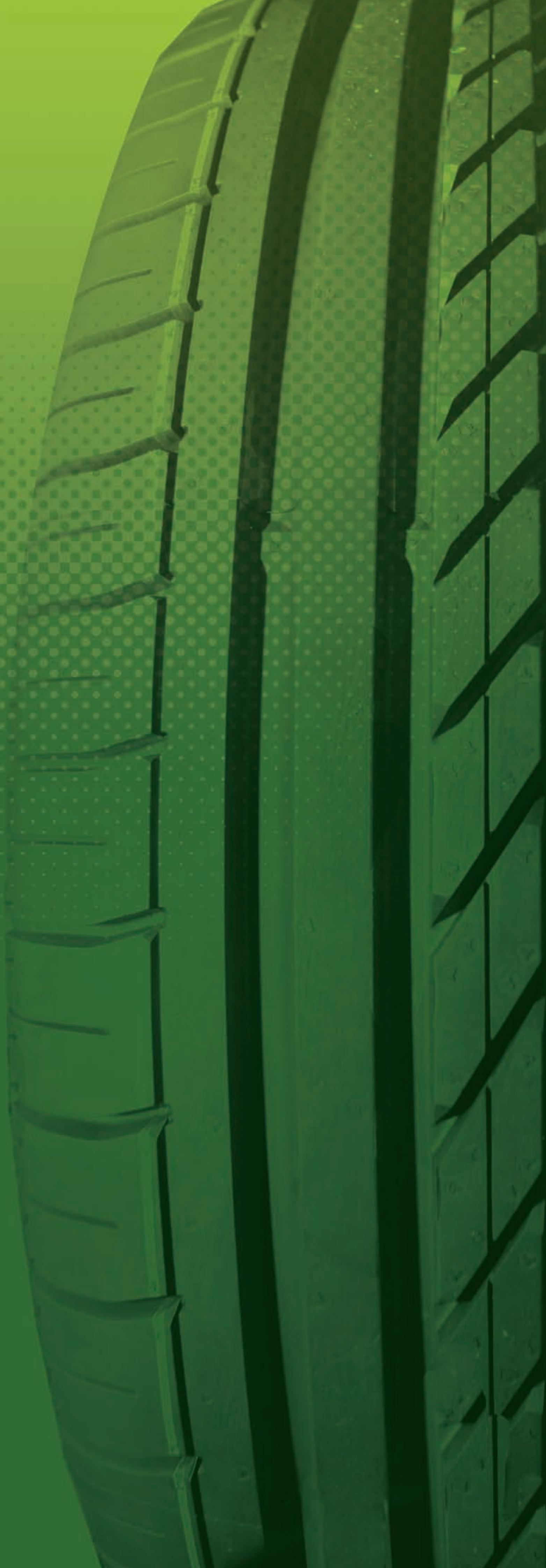
The unlisted securities of the Company as at 30 September 2009 are 2,730,000 Options. The Options do not carry a right to vote at a general meeting of Shareholders.

**Unlisted Options**

| Vesting Date | Exercise Price | No. of Options | No. of Holders | Expiry Date |
|---|---|---|---|---|
| 31 December 2009 | 20 cents | 200,000 | 1 | 30 June 2010 |
| N/A | 20 cents | 1,300,000 | 3 | 30 June 2010 |
| N/A | 30 cents | 810,000 | 2 | 30 June 2011 |
| N/A | 40 cents | 420,000 | 1 | 30 June 2011 |

## 5. VOTING RIGHTS

In accordance with the Company's Constitution, on a show of hands every shareholder present in person or by proxy, attorney or representative of a shareholder has one vote and on a poll every shareholder present in person or by proxy, attorney, representative of a shareholder has in respect of fully paid shares, one vote for every share held. No class of option holder has a right to vote, however the shares issued upon exercise of options will rank pari passu with the then existing fully paid ordinary share.



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