

RECLAIM INDUSTRIES LIMITED

ABN 47 090 671 819

Appendix 4E – Preliminary Final Report

Year Ended 30 June 2010

**Results for announcement to market
Under ASX Listing Rule 4.3A**

Results for Announcement to the Market

				Year Ended 30 June 2010 \$	Year Ended 30 June 2009 \$
Revenue from ordinary activities	Up	20%	to	15,489,133	12,933,833
Loss before Interest, Tax, Depreciation and Amortisation (EBITDA)	Up	75%	to	(396,804)	(1,571,877)
Loss before Interest and Tax (EBIT)	Up	55%	to	(906,746)	(2,002,943)
Net loss for the period attributable to members (NLAT)	Up	43%	to	(1,250,701)	(2,201,388)

The Directors do not recommend that a dividend relating to the year ending 30 June 2010 be paid.

REVIEW OF OPERATIONS

Earnings Result

The year ended 30 June 2010 result of a loss of \$1,221,679 was below expectations particularly after a promising start to the financial year. However this does represent a substantial improvement on the previous year's loss of \$2,213,287. Substantial improvement can be seen across most aspects of the business. Nevertheless the directors are very aware that further rapid improvement is necessary to realise the potential of the company and return to the shareholders some value for investment.

Total revenue for the year increased by 20%. However, activity within the business increased by 48%, due to a major increase in production of granule. Much of this increase was used to displace external purchases of rubber for use in our surfacing business.

Additional costs were incurred due to the commissioning of tyre processing facilities in New South Wales (NSW) and South Australia (SA). These include implementation issues, such as commissioning of machines, updating maintenance of second hand machines and training of staff cost about \$500k in each of SA and NSW. In July 2010 the production facilities produced in excess of 500 tonnes for the month which is the best result to date, and compares with 150 tonnes/month during the 2009 financial year. Consistency in achieving the production facilities output targets remains the biggest challenge.

Capital investment in new equipment totalling \$1.4m over the last year was predominantly for the set up of processing operations in NSW and SA. This is now complete and capital expenditure was scaled back significantly in the second half of the year. As production volumes increase our cost of granule continues to fall. WA now has a cost which is half of that achieved in 2008 and competitive with the best in Australia. SA and NSW are expected to approach this cost base by December 2010. However, SA needs further capital expenditure to fully meet its potential.

In the sales division, the soft fall surfacing market continues to be our largest source of revenue and the business saw an improvement in the level of sales by 16%. The revenue in this sector is still well below the levels experienced 3 years ago. The Federal Government's Building the Education Revolution schools program has certainly assisted the

market and softened the impact of the economic downturn. We are gradually seeing market segments in which Reclaim had a sizeable presence such as property developers slowly return to the market.

Wholesale sales of the additional rubber produced by the three processing plants and associated products such as binder has been the largest driver of the increased revenue of the group. These wholesale sales have increased by 205% to \$2.3m compared to the previous financial year with strong results in sales to bitumen suppliers and our competitors in the soft fall surfacing market. Diversification of our income base has been a major focus of the business with surfacing revenue now representing 60% of the total revenue of the group compared to levels of 78% two years ago. The growth of this non surfacing market has been an extremely pleasing result and we believe many more opportunities exist with demand regularly exceeding supply.

The company continues to develop and produce its moulded product range within its manufacturing division. A venture was commenced with the Mobilong prison in SA who now produce our Edgesafe product. The project has proven to be successful for both parties with the labour at Mobilong benefiting from developing useful skills and Reclaim having access to an additional flexible workforce.

The tyre collection sector of our business has performed well in challenging conditions with revenue very similar to that of the previous year. This was in the face of the downward price pressure exerted by new and existing competitors trying to secure market share. Despite the revenue base remaining stable, strong management of costs and improved efficiencies in collecting tyres have seen this business unit generate a strong profit of over \$1m for the year. Acquisitions and strategic alliances have consolidated our position as the most significant player in tyre collections in SA and WA. During the year the company acquired the remaining 30% in our WA tyre collection subsidiary and consolidated the operation of this business onto the one location in WA.

As has always been the case, opportunities to expand the business continue to present themselves. Many have strong synergies with the existing business and would represent a logical diversification of the company's revenue base and reduce the reliance on soft fall surfacing income. However as most require some form of cash injection the company is not in a position to pursue without further equity raising. We would expect to undertake a capital raising at some stage during the first half of the 2011 financial year.

Whilst 2010 represents a significant improvement on the previous year's financial performance, the result is still not acceptable. The need for further capital investment and ongoing rationalisation of costs will be paramount.

Preliminary Consolidated Statement of Comprehensive Income
For the financial year ended 30 June 2010

	Note	2010 \$	2009 \$
Revenue from continuing operations		15,489,133	12,993,833
Raw materials and consumables used		(3,855,660)	(3,490,290)
Finance costs		(314,933)	(169,573)
Depreciation and amortisation expense		(509,942)	(431,066)
Warrant Claims		(232,423)	(137,628)
Rent expense		(734,560)	(534,532)
Hire of equipment expense		(222,327)	(238,528)
Fuel expense		(291,158)	(236,511)
Other expenses		(872,250)	(1,122,665)
Employee related costs		(6,370,417)	(5,275,431)
External contractors' expense		(1,850,263)	(2,170,555)
Freight expense		(609,420)	(472,504)
Repairs and maintenance expense		(532,468)	(504,173)
Travel and related expense		(327,150)	(198,392)
Share based payments		(833)	18,032
(Loss) / gain on sale of assets		12,992	(202,533)
Loss before income tax		(1,221,679)	(2,172,516)
Income tax expense		-	(40,771)
Loss for the year		(1,221,679)	(2,213,287)
Other comprehensive income		-	-
Total comprehensive loss for the period		(1,221,679)	(2,213,287)
Attributable to:			
Equity holders of the parent		(1,250,701)	(2,201,388)
Minority Interests		29,022	(11,899)
		(1,221,679)	(2,213,287)
Basic earnings per share (cents per share)	3	(1.25)	(2.75)
Diluted earnings per share (cents per share)	3	(1.25)	(2.75)

Notes to the consolidated financial statements are included on pages 8 to 12

Preliminary Consolidated Statement of Financial Position
As at 30 June 2010

	2010 \$	2009 \$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	169,799	250,682
Trade and other receivables	2,260,966	1,441,844
Inventories	917,281	739,093
Other financial assets	45,000	-
Other	92,706	86,150
	<u>3,485,752</u>	<u>2,517,769</u>
Assets held for resale	220,993	-
TOTAL CURRENT ASSETS	3,706,745	2,517,769
NON-CURRENT ASSETS		
Goodwill	383,119	383,119
Other Intangible Assets	12,520	20,044
Property, plant and equipment	3,699,867	2,750,045
TOTAL NON-CURRENT ASSETS	4,095,506	3,153,208
TOTAL ASSETS	7,802,251	5,670,977
CURRENT LIABILITIES		
Trade and other payables	2,538,737	1,180,959
Customer deposits	176,250	274,032
Borrowings	2,221,139	844,113
Provisions	279,703	160,762
TOTAL CURRENT LIABILITIES	5,215,829	2,459,866
NON-CURRENT LIABILITIES		
Borrowings	670,357	573,311
Deferred income (government grant)	536,679	407,937
Provisions	50,709	39,264
TOTAL NON-CURRENT LIABILITIES	1,257,745	1,020,512
TOTAL LIABILITIES	6,473,574	3,480,378
NET ASSETS	1,328,677	2,190,599
EQUITY		
Issued capital	8,041,476	7,532,552
Reserves	90,841	190,059
(Accumulated losses)	(6,803,640)	(5,552,939)
Parent Entity Interest	1,328,677	2,169,672
Minority Equity Interest	-	20,927
TOTAL EQUITY	1,328,677	2,190,599

Notes to the consolidated financial statements are included on pages 8 to 12

**Preliminary Consolidated Statement of Changes in Equity
For the financial year ended 30 June 2010**

	Issued Capital \$	Contributed Equity \$	Reserves – Employee Shares \$	Reserves – Non-Controlling Interest Buyout \$	Accumulated Losses \$	Attributable to the owners of the parent \$	Non- Controlling Interest \$	Total \$
Balance as at 1 July 2008	6,375,692	-	280,091	-	(3,351,551)	3,304,232	32,826	3,337,058
(Loss) for the period	-	-	-	-	(2,201,388)	(2,201,388)	(11,899)	(2,213,287)
Total comprehensive income for the period	-	-	-	-	-	-	-	-
Issue of ordinary shares under a 1 for 2 non-renounceable rights issue	1,112,836	-	-	-	-	1,112,836	-	1,112,836
Buy Back of shares under Employee Shares Plan	(998)	-	-	-	-	(998)	-	(998)
Share issue costs	(26,978)	-	-	-	-	(26,978)	-	(26,978)
Share based payment	-	-	12,886	-	-	12,886	-	12,886
Value of share options cancelled prior to vesting of the share option	-	-	(30,918)	-	-	(30,918)	-	(30,918)
Transfer from share-based payments reserve for shares issued to employees released from escrow	72,000	-	(72,000)	-	-	-	-	-
Balance as at 30 June 2009	7,532,552	-	190,059	-	(5,552,939)	2,169,672	20,927	2,190,599
(Loss) for the period	-	-	-	-	(1,250,701)	(1,250,701)	29,022	(1,221,679)
Total comprehensive income for the period	-	-	-	-	-	-	-	-
Transfer of non-controlling interest	-	-	-	49,949	-	49,949	(49,949)	-
Issue of ordinary shares as consideration of acquisition of certain plant & equipment	217,860	-	-	-	-	217,860	-	217,860
Issue of ordinary shares under a placement	320,000	-	-	-	-	320,000	-	320,000
Buy Back of shares under Employee Shares Plan	(125)	-	-	-	-	(125)	-	(125)
Share issue costs	(28,811)	-	-	-	-	(28,811)	-	(28,811)
Share based payment	-	-	833	-	-	833	-	833
Contributed equity costs	-	-	-	-	-	-	-	-
Purchase of remaining 30% interest in Reclaim Collections Pty Ltd	-	-	-	(150,000)	-	(150,000)	-	(150,000)
Balance as at 30 June 2010	8,041,476	-	190,892	(100,051)	(6,803,640)	1,328,677	-	1,328,677

Notes to the consolidated financial statements are included on pages 8 to 12

Preliminary Consolidated Statement of Cash Flows
For the financial year ended 30 June 2010

	2010 \$	2009 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	16,136,764	14,763,604
Payments to suppliers and employees	(16,185,780)	(15,946,362)
Interest and other costs of finance paid	(314,933)	(169,573)
Income Tax Paid	-	(40,771)
Net cash used in operating activities	(363,949)	(1,393,102)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for property, plant and equipment	(1,116,287)	(1,289,879)
Proceeds from sale of property, plant and equipment	20,160	3,500
Proceeds from government grant	154,729	412,771
Interest received	521	27,868
Acquisition of controlled entity, net of cash acquired	(150,000)	-
Net cash used in investing activities	(1,090,877)	(845,740)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	320,000	1,112,836
Payment for share buy-back to equity holders of the parent	(125)	(998)
Payment for share issue costs	(28,811)	(26,978)
Payment for bank guarantee	(45,000)	-
Proceeds from borrowings	1,523,000	440,975
Repayment of borrowings	(395,121)	(202,940)
Net cash provided by financing activities	1,373,943	1,322,895
Net decrease in cash held	(80,883)	(915,947)
Cash at beginning of financial year	250,682	1,166,629
Cash at end of financial year	169,799	250,682

Notes to the consolidated financial statements are included on pages 8 to 12

**Notes to the Preliminary Consolidated Financial Statements
For the Year ended 30 June 2010**

Note 1: Basis Of The Preparation Of The Preliminary Final Report

The preliminary final report has been prepared in accordance with the ASX Listing rule 4.3A and the disclosure requirements of ASX Appendix 4E.

This report has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The accounting policies have been consistently applied, unless otherwise stated.

Note 2 Segment Reporting

The Group has adopted AASB 8 Operating Segments with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (AASB 114 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of AASB 8, the identification of the Group's reportable segments has changed.

The Group has identified its operating segments to be three business units of Collections, Manufacturing and Sales. In prior years, segment information reported externally was analysed on the basis of there being one business segment, the manufacture of recycled rubber and its associated products. However information reported to the Board of Directors for the purpose of resource allocation and assessment of performance clearly separates the Group into three distinct reportable segments:

- a. Collections
- b. Manufacturing
- c. Sales

Collections is the pickup of tyres from customers. Manufacturing is the processing of tyres into rubber granule or baled tyres. Sales is defined as the laying of the rubber soft-fall surfaces or selling of rubber crumb and associated products to wholesale markets.

Information regarding these segments is presented below. Amounts reported for the prior period have been restated to conform to the requirements of AASB 8. The accounting policies of the new reportable segments are the same as the Group's accounting policies.

Notes to the Preliminary Consolidated Financial Statements
For the Year ended 30 June 2010

	Segment Revenue		Segment Result	
	2010	2009	2010	2009
	\$	\$	\$	\$
Collections	3,886,425	3,858,725	1,072,633	463,775
Manufacturing	3,005,714	1,253,807	(1,240,856)	(559,938)
Sales	11,559,865	8,725,401	997,553	(159,855)
Intersegment Eliminations	(2,963,392)	(844,100)	-	-
Total for continuing operations	15,488,612	12,993,833	829,330	(256,018)
Investment revenue			521	27,868
Central administration costs			(1,897,389)	(1,894,875)
Finance costs			(154,141)	(49,491)
Loss before tax			(1,221,679)	(2,172,516)
Income tax expense			-	(40,771)
Loss after tax			(1,221,679)	(2,213,287)

Note 3: Earnings per Share

	2010 Cents per share	2009 Cents per share
Basic earnings per share – loss	(1.25)	(2.75)
Diluted earnings per share – loss	(1.25)	(2.75)

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	(1,221,679)	(2,201,388)

Earnings used in the calculation of basic and diluted earnings per share agree directly to net loss in the income statement.

	No.	No.
Weighted average number of ordinary shares	97,561,515	80,127,645

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.

Notes to the Preliminary Consolidated Financial Statements
For the Year ended 30 June 2010

Note 4: Issued Capital

	2010 \$	2009 \$
101,097,454 (2009: 93,710,520) fully paid ordinary shares	8,041,476	7,532,552
Ordinary Shares		
	No.	No.
At the beginning of the financial year	93,710,520	77,587,963
Shares issued during year:		
- 5 May 2009 (i)	-	1,735,941
- 8 May 2009 (ii)	-	15,384,616
- 30 June 2009 (iii)	-	(998,000)
- 30 Nov 2009 (iv)	2,178,600	-
- 4 Jan 2010 (v)	5,333,334	-
- 28 June 2010 (vi)	(125,000)	-
	101,097,454	93,710,520

- (i) 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.
- (ii) On 8 May 2009 the Company issued 15,384,616 ordinary shares to the underwriters of the 1 for 2 non-renounceable rights issue.
- (iii) On 30 June 2009 the Company bought back 998,000 ordinary shares under its Employee Share Plan.
- (iv) On 30 November 2009 the Company issued 2,178,600 ordinary shares at 10 cents per share as consideration for the acquisition of certain plant and equipment from the Managing Director.
- (v) On 4 January 2010 the Company issued 5,333,334 ordinary shares through a placement at 6 cents per share.
- (vi) On 28 June 2010 the Company bought back 125,000 ordinary shares under its Employee Share Plan.

Note 5: Increased shareholding of controlled entity

On 9th December 2009 the remaining 30% outside equity interest of Reclaim Collections Pty Ltd was purchased for cash consideration of \$150,000. Reclaim Collections Pty Ltd is now a wholly owned subsidiary. The amount of the net profit of Reclaim Collections Pty Ltd for the year ended 30 June 2010 was \$63,900 and opening retained earnings at the beginning of the period is \$78,434.

**Notes to the Preliminary Consolidated Financial Statements
For the Year ended 30 June 2010**

Note 6: 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 2010 the Group made a loss of \$1,221,679 (2009: \$2,213,287) and recorded a net cash outflow from operating activities of \$363,949 (2009: \$1,393,102). The Group also has a net current asset deficiency of \$1,509,084 as at 30 June 2010. Further for the year ended 30 June 2010, the parent entity made a loss of \$1,220,979 (2009: \$3,165,504) and had a net current asset deficiency of \$1,427,067 (2009: \$1,467,459) as at 30 June 2010.

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

- (a) The Group has rationalised its workforce which will see a 20% reduction in the number of staff employed by the Group which will realise a saving of \$130,000 per month. The remaining workforce will be supplemented by contract
- (b) The implementation issues associated with the commissioning for the tyre processing plant in NSW and SA have been resolved. The Directors expect to achieve greater consistency of output from these facilities. In July 2010 the production facilities produced in excess of 500 tonnes for the month which is the best result to date.
- (c) The wholesale rubber market continues to be an area for future growth and is a key strategy to reduce the reliance on the surfacing division of the business.
- (d) A number of positive discussions have been had with a number of potential investors regarding a capital injection of at least \$1m in the Group. This will ease the Group's current cash flow difficulties in the short term after which the Directors expect the Group to consistently achieve profitability and positive cash flows from September 2010 onwards.
- (e) In the event that the Directors are unable to raise the capital discussed in (d) above, the Directors have also been discussing with a number of interested parties the sale of part or all of the business so as to be able to generate free cash flows of at least \$1m.
- (f) Bibby Financial Services, the company's largest secured financier have indicated their intent to support the Group.

The Directors believe that the combined impacts of the actions in (a), (b) and (c) above will enable the Group to consistently achieve profitability and positive cash flows from September 2010 onwards.

The Directors believe that the execution of one or more of the options outlined in (d) and (e) above will ease the Group's current cash flow difficulties in the short term.

**Notes to the Preliminary Consolidated Financial Statements
For the Year ended 30 June 2010**

In the event that:

- (a) the targeted level of production, sales and therefore operating cash improvement forecasted; and
- (b) a capital injection of at least \$1m by no later than 30 September 2010; or
- (c) a sale of a division of the business generating at least \$1m of free cash flow by no later than 30 September 2010.

are unable to be achieved and the Parent and the Group are unable to obtain additional financing or undertake equity raisings, then there is significant uncertainty as to whether the Parent and the Group will be able to continue as a 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.

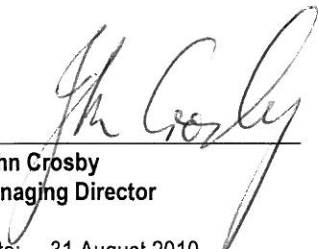
The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amount and classification of liabilities that might be necessary should the Parent or the Group not continue as a going concerns.

**Notes to the Preliminary Consolidated Financial Statements
For the Year ended 30 June 2010**

Note 6. Compliance Statement:

1. This report is based on the financial statements to which one of the following applies:

☐	The financial statements have been audited.	☐	The financial statements have been supplied to review.
☒	The financial statements are in the process of being audited or subject to review.	☐	The financial statements have not yet been audited or reviewed.


John Crosby
Managing Director

Date: 31 August 2010