

**CLOSE THE LOOP LIMITED**  
A.B.N. 91 095 718 317  
**AND CONTROLLED ENTITIES**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
30 JUNE 2010**

**CLOSE THE LOOP LTD**  
ABN 91 095 718 317  
**AND CONTROLLED ENTITIES**

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**CLOSE THE LOOP LTD**  
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**AND CONTROLLED ENTITIES**

**DIRECTORS REPORT**

Your directors present their report on the company and its controlled entity for the financial year ended 30 June 2010.

**Directors Names**

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

Stephen Michael Morriss  
Craig Warren Devlin  
Gregory Elliott Turnidge  
Silvio Salom

**Company Secretary Names**

Andrew Metcalfe

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

**Results**

The consolidated profit of the consolidated group for the financial year after providing for income tax amounted to \$268,677 (2009: loss \$1,319,741).

**Principal Activities**

The principal activity of the economic entity during the financial year was the commercial exploitation of inkjet and toner cartridge collection infrastructure and resource recovery from processing collected cartridges and manufacturing scrap, and the internationalisation of the company's commercial activities.

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

**Review of Operations**

A review of the operations of the consolidated group during the financial year and the results of those operations found that the changes in market demand and competition have seen an increase in sales of \$2,988,292 or 25% to \$14,866,655. The increase in sales has contributed to the generation of the consolidated group's operating profit before tax.

During the year the company implemented a significant cost reduction program and reduced the group's overhead costs in managing the Australian operations and the internationalisation of its commercial activities. These cost cuts, when combined with significant revenue growth in the US operations, moved the consolidated group from a loss making enterprise in the previous financial year to a profit making enterprise in 2009-10.

**Significant Changes in State of Affairs**

No significant changes in the consolidated group's state of affairs occurred during the financial year.

**Events after the Reporting Period**

The Convertible Notes, which fell due on 31 October 2010, have been rolled over into a new Secured Convertible Note Deed, signed by the Note Holders and the company effective from 1 November 2010. For further details, refer to Note 15 of the Financial Statements. During the course of review of the new arrangement two minor Note Holders confirmed their intention to convert up to 50% of their Notes.

The group is negotiating a new funding facility with the NAB. The current facility has been extended to 30 November 2010, pending the completion of negotiations.

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**DIRECTORS REPORT**

**Events after the Reporting Period (cont'd)**

Since balance date changes have occurred in the contractual arrangements. The Company has entered into a major new contract with Xerox in the US for the financial years 2010-11 to 2012-13, which will commence in September 2010. The Company was notified by Ricoh in August 2009 that it is not renewing its contract, and is engaging another company to process its collected cartridges. This decision remains unresolved, and the company continues to receive Ricoh cartridges. Expectations are that the decision will be implemented late in 2010 with a potential loss of revenue of \$350,000 per annum.

In August 2009, CtL Inc began receiving cartridges from Staples under new contract terms, the effect of which was to triple the number of cartridges being delivered to our Hebron facility. This contract was expanded and renewed for two years in April 2010.

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

**Likely Developments**

Likely developments in the operations of the consolidated group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the consolidated group.

**Environmental Issues**

The operations of the company and its controlled entities are subject to certain environmental regulations under the law of Commonwealth or of a State. The Directors are not aware of any significant breaches of environmental regulations during the financial year.

**Dividends Paid, Recommended, and Declared**

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

**Information on Directors**

<b>Stephen Michael Morriss</b>	50 years old
Qualifications	Certificate of Technology - RMIT MAICD
Experience	Design draftsman-10 years: Self employed/small business-15 years
Special responsibilities	Executive Director Appointed: 29 January 2001
<b>Craig Warren Devlin</b>	57 years old
Qualifications	Bachelor of Commerce(University of Melbourne) Diploma of Education Diploma of Corporate Management Certified Practising Accountant (CPA) Registered Tax Agent
Experience	Practising Accountant (36 years)
Special responsibilities	Non executive Director and Chairperson Appointed: 15 June 2001

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**DIRECTORS REPORT**

**Information on Directors (cont'd)**

<b>Gregory Elliot Turnidge</b>	57 years old
Qualifications	Bachelor of Arts (Hons) (Macquarie University) Master of Economics (Hons) (Macquarie University) Fellow of the Australia Institute of Company Directors
Experience	Former Director, Aluminium Smelters of Victoria Pty Ltd (15 years) Former Chairman, Immersion Technologies International PLC Former Director, Immersion Technology International PLC Former Director, Melbourne Venture Partners Pty Ltd (8 Years) Former Director, Whise Acoustics Ltd and related entities (7 years) Director, Galen Investments Pty Ltd (12 years)
Special responsibilities	Executive Director Chief Executive Officer Chief Financial Officer Appointed: 7 December 2005 Retired: 16 June 2007 Reappointed: 24 August 2007
<b>Silvio Salom</b>	51 Years old
Qualifications	Bachelor of Electrical Engineering (Hons) ( Monash University) Master of Engineering Science (Pend) ( Melbourne University) Master of Fine Art ( Academy of Art University, San Francisco) Fellow of the Australian Institute of Company Directors Members Institute of Electrical and Electronics Engineers
Experience	Director, Adacel Technologies Ltd (20 years) Director, Lochard Limited (18 years) Former Chairman, Gramercy Venture Advisors (3 years) Director, IT&T Skills Hub Vice Chairman, Australian Airport Industry (2 years) Advisory Board Member, CSIRO (8 years) Directors, many other companies over the past 20 years
Special responsibilities	Director Appointed: 31 December 2007
<b>Andrew Metcalfe</b>	46 years old
Qualifications	B.Bus. CPA, FCIS, Grad. Dip. App Corp Gov
Experience	Andrew is a qualified accountant with over 20 years experience across a diversity of industry sectors, holding the position of Company Secretary and CFO for a number of ASX listed entities and unlisted public entities. Andrew is an experienced professional providing consulting services in the area of Company Secretarial, Corporate Administration and Governance. Andrew is a fellow of the Institute of Chartered Secretaries and through his Company , Accosec Pty Ltd, provides consulting services and assists Close the Loop in company secretarial procedures
Special responsibilities	Company Secretary

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**DIRECTORS REPORT**

**Options**

At the date of this report, the unissued ordinary shares of Close the Loop Limited under option are as follows:

<u>Grant Date</u>	<u>Date of Expiry</u>	<u>Exercise Price</u>	<u>Number under Option</u>
30 April 2009	30 November 2011	\$0.10	1,960,000
1 March 2010	30 April 2013	\$0.10	8,000,000
30 June 2010	30 June 2015	\$0.10	9,000,000

No person entitled to exercise an option had or has any right by virtue of the option to participate in any issues of shares or other interests in the company or any other entity.

1,960,000 options issued on 30 April 2009 and 9,000,000 options issued on 30 June 2010, were issued to certain employees pursuant to an Employee Share Option Plan passed at the AGM held in October 2006 as part of their contractual arrangement with the company.

8,000,000 options issued on 1 March 2010 granted to short term lenders to the company as disclosed in Note 19 c) to the financial statements.

For details of options issued to directors and executives as remuneration, refer to Note 22 and Note 25 to the Financial Statements.

During the year ended 30 June 2010, no shares of Close the Loop Limited were issued on the exercise of options granted. No further shares have been issued since year end. No amounts are unpaid on any of the shares.

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

**Indemnification of Officers or Auditor**

The company and its controlled entities have, during and since the end of the financial year, paid a premium in respect of Directors and Officers Liability insurance which indemnifies persons who are or have been Directors and Officers of the company and its controlled entities, subject to conditions contained in the insurance policy. Further disclosure required under Section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the contract

**Proceeding on Behalf of the Company**

No person has applied for leave of Court to bring proceeding on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is provided with this report

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



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**Stephen Michael Morriss**  
*Director*



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**Gregory Elliott Turnidge**  
*Director*

Dated this 1st day of November 2010

**CLOSE THE LOOP LTD**  
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**DIRECTORS' DECLARATION**

The Directors of the company declare that:

- 1 The financial statements, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the financial statements, as set out herein, are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Accounting Standards; and
  - (b) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the company and consolidated group.
- 2 In the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



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**Stephen Michael Morriss**  
*Director*



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**Gregory Elliott Turnidge**  
*Director*

Dated this 1st day of November 2010



McBAIN  
McCARTIN & CO

CHARTERED ACCOUNTANTS  
AUDIT & ASSURANCE SERVICES

PO BOX 82 BALWYN  
VICTORIA, AUSTRALIA 3103  
ABN 26 028 714 960

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF CLOSE THE LOOP LTD**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2010 there have been:

- i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.

*McBain McCartin & Co*

**McBain McCartin & Co**  
**Chartered Accountants**

*David W McBain*

**David W McBain (FCA, CPA)**  
**Partner**

Level 1, 123 Whitehorse Road,  
BALWYN VIC 3103

Dated this 1st day of November 2010



McBAIN  
McCARTIN & CO

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CHARTERED ACCOUNTANTS  
AUDIT & ASSURANCE SERVICES

PO BOX 82 BALWYN  
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ABN 26 028 714 960

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLOSE THE LOOP LTD**

We have audited the accompanying financial report of Close the Loop Ltd (the company) and Close the Loop Ltd and Controlled Entities (the consolidated group), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the Directors' declaration of the consolidated group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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

The Directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

### ***Auditor's Responsibility***

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

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

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

### **Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the Directors of Close the Loop Ltd, would be in the same terms if provided to the Directors as at the date of this auditor's report.

### **Audit Opinion**

In our opinion:

- a) the financial report of Close the Loop Ltd (the company) and Close the Loop Ltd and Controlled Entities (the consolidated group) is in accordance with the *Corporations Act 2001*, including:
  - i) giving a true and fair view of the company and consolidated group's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
  - ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.
- b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### ***Inherent uncertainty regarding going concern***

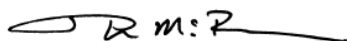
Without qualification to the opinion expressed above, attention is drawn to the following matters:

The financial report has been prepared on the going concern basis notwithstanding the company and consolidated group's financial position as at 30 June 2010 and of their performance for the year ended on that date.

As at 30 June 2010 the consolidated group's total liabilities exceeded total assets by \$417,966, there was a deficiency of net tangible assets of \$624,232 and an excess of current liabilities over current assets of \$1,951,795. Also refer to Note 1(b).



**McBain McCartin & Co**  
**Chartered Accountants**



**David W McBain (FCA, CPA)**  
**Partner**

Level 1, 123 Whitehorse Road,  
BALWYN VIC 3103

Dated this 1st day of November 2010

**CLOSE THE LOOP LTD**  
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**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2010**

	NOTE	Consolidated Group			Parent Entity		
		2010 \$	2009 \$	1 July 2008 \$	2010 \$	2009 \$	1 July 2008 \$
Sales revenue	2	14,866,655	11,878,363	9,106,043	-	-	-
Cost of sales		(8,925,279)	(7,509,655)	(5,105,000)	-	-	-
Gross profit		5,941,376	4,368,708	4,001,043	-	-	-
Other income	2	103,529	103,989	84,514	1,378,513	667,338	66,334
Marketing expenses		(635,151)	(924,910)	(42,974)	-	-	-
Administrative expenses		(3,325,897)	(3,184,025)	(3,929,854)	(1,108,681)	(1,185,677)	(1,404,770)
Diminution expense/ gain		-	-	-	-	-	326,244
Research & development expense		(30,123)	(152,640)	(46,744)	-	-	-
Other expenses		(1,258,873)	(885,418)	(1,353,846)	(3,006)	(91,322)	(249,890)
Finance costs		(492,300)	(645,445)	(406,321)	(371,796)	(402,913)	(392,931)
Write-back of investment in subsidiary		-	-	-	-	1,351,662	-
<b>Profit/ (Loss) before income tax expense</b>	3	302,561	(1,319,741)	(1,694,182)	(104,970)	339,088	(1,655,013)
Income tax expense	4	(33,884)	-	(2,478)	-	-	-
<b>Profit/ (Loss) for the year attributable to members of the parent entity</b>		268,677	(1,319,741)	(1,696,660)	(104,970)	339,088	(1,655,013)
Other comprehensive income:		-	-	-	-	-	-
<b>Total comprehensive income for the year attributable to members of the parent entity</b>		268,677	(1,319,741)	(1,696,660)	(104,970)	339,088	(1,655,013)

The accompanying notes form part of these financial statements

**CLOSE THE LOOP LTD**  
A.C.N 91 095 718 317  
**AND CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2010**

	Note	Consolidated Group			Parent Entity		
		2010 \$	2009 \$	1 July 2008 \$	2010 \$	2009 \$	1 July 2008 \$
<b>CURRENT ASSETS</b>							
Cash and cash equivalents	5	1,265,536	291,596	395,469	55,508	2,774	109,336
Trade and other receivables	6	2,501,996	1,812,722	1,457,076	603,311	419,182	2,612,541
Inventories	7	48,452	47,894	85,159	-	-	-
Other assets	8	98,395	2,043	9,519	-	-	-
Deferred tax asset	9a	2,542	-	-	-	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>3,916,921</b>	<b>2,154,255</b>	<b>1,947,223</b>	<b>658,819</b>	<b>421,956</b>	<b>2,721,877</b>
<b>NON CURRENT ASSETS</b>							
Trade and other receivables	6	-	8,940	27,160	1,340,726	1,684,586	27,160
Financial assets	10	-	-	-	3,505,941	1,351,669	7
Property, plant and equipment	12	3,957,846	2,500,534	2,370,096	-	-	-
Intangible assets	13	206,266	407,790	378,783	-	-	-
<b>TOTAL NON CURRENT ASSETS</b>		<b>4,164,112</b>	<b>2,917,264</b>	<b>2,776,039</b>	<b>4,846,667</b>	<b>3,036,255</b>	<b>27,167</b>
<b>TOTAL ASSETS</b>		<b>8,081,033</b>	<b>5,071,519</b>	<b>4,723,262</b>	<b>5,505,486</b>	<b>3,458,211</b>	<b>2,749,044</b>
<b>CURRENT LIABILITIES</b>							
Trade and other payables	14	3,879,105	3,172,830	1,944,838	1,337,099	1,271,359	821,089
Borrowings	15	1,775,222	3,180,567	2,900,232	886,073	2,388,422	2,300,232
Current tax liabilities	9b	38,951	-	2,478	-	-	-
Provisions	16	175,438	111,594	136,431	32,680	14,723	45,240
<b>TOTAL CURRENT LIABILITIES</b>		<b>5,868,716</b>	<b>6,464,991</b>	<b>4,983,979</b>	<b>2,255,852</b>	<b>3,674,504</b>	<b>3,166,561</b>
<b>NON CURRENT LIABILITIES</b>							
Borrowings	15	2,550,832	496,331	345,222	2,474,093	86,046	231,910
Provisions	16	79,451	79,635	43,488	-	-	-
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>2,630,283</b>	<b>575,966</b>	<b>388,710</b>	<b>2,474,093</b>	<b>86,046</b>	<b>231,910</b>
<b>TOTAL LIABILITIES</b>		<b>8,498,999</b>	<b>7,040,957</b>	<b>5,372,689</b>	<b>4,729,945</b>	<b>3,760,550</b>	<b>3,398,471</b>
<b>NET ASSETS</b>		<b>(417,966)</b>	<b>(1,969,438)</b>	<b>(649,427)</b>	<b>775,541</b>	<b>(302,339)</b>	<b>(649,427)</b>
<b>EQUITY</b>							
Share capital	18	8,454,652	7,271,802	7,263,802	8,454,652	7,271,802	7,263,802
Foreign currency translation reserve		133,322	33,377	41,647	-	-	-
Accumulated losses		(9,005,940)	(9,274,617)	(7,954,876)	(7,679,111)	(7,574,141)	(7,913,229)
<b>TOTAL EQUITY</b>		<b>(417,966)</b>	<b>(1,969,438)</b>	<b>(649,427)</b>	<b>775,541</b>	<b>(302,339)</b>	<b>(649,427)</b>

The accompanying notes form part of these financial statements

# CLOSE THE LOOP LTD

A.C.N 91 095 718 317

## AND CONTROLLED ENTITIES

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

		<u>Share capital</u>				
	Note	Ordinary \$	Redeemable converting preference shares \$	Foreign currency translation reserve \$	Accumulated losses \$	Total \$
<b>CONSOLIDATED GROUP</b>						
Balance at 1 July 2008		6,680,302	583,500	41,647	(7,954,876)	(649,427)
Shares issued:						
Ordinary shares	18a)	8,000	-	-	-	8,000
Redeemable converting preference shares	18b)	-	-	-	-	-
Net income from exchange differences on translation of foreign operations recognised directly in equity, as previously stated						
		-	-	(18,874)	-	(18,874)
Retrospective restatement	1v)	-	-	10,604	-	10,604
Net income from exchange differences on translation of foreign operations recognised directly in equity, as restated						
		-	-	(8,270)	-	(8,270)
Profit/ (Loss) for the year, as previously stated						
		-	-	-	(1,057,840)	(1,057,840)
Retrospective restatement	1v)	-	-	-	(261,901)	(261,901)
Profit/ (Loss) for the year, as restated						
		-	-	-	(1,319,741)	(1,319,741)
<b>Balance at 30 June 2009, as previously stated</b>						
		<b>6,688,302</b>	<b>583,500</b>	<b>22,773</b>	<b>(9,012,716)</b>	<b>(1,718,141)</b>
Retrospective restatement	1v)	-	-	10,604	(261,901)	(251,297)
<b>Balance at 30 June 2009, as restated</b>						
		<b>6,688,302</b>	<b>583,500</b>	<b>33,377</b>	<b>(9,274,617)</b>	<b>(1,969,438)</b>
Shares issued:						
Ordinary shares	18a)	261,250	-	-	-	261,250
Redeemable converting preference shares	18b)	-	921,600	-	-	921,600
Net income from exchange differences on translation of foreign operations recognised directly in equity						
		-	-	99,945	-	99,945
Profit/ (Loss) for the year						
		-	-	-	268,677	268,677
<b>Balance at 30 June 2010</b>						
		<b>6,949,552</b>	<b>1,505,100</b>	<b>133,322</b>	<b>(9,005,940)</b>	<b>(417,966)</b>

The accompanying notes form part of these financial statements

**CLOSE THE LOOP LTD**  
A.C.N 91 095 718 317  
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**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2010**

<u>Share capital</u>						
	Note	Ordinary \$	Redeemable converting preference shares \$	Foreign currency translation reserve \$	Accumulated losses \$	Total \$
<b>PARENT ENTITY</b>						
Balance at 1 July 2008		6,680,302	583,500	-	(7,913,229)	(649,427)
Shares issued:						
Ordinary shares	18a)	8,000	-	-	-	8,000
Redeemable converting preference shares	18b)	-	-	-	-	-
Profit/ (Loss) for the year		-	-	-	339,088	339,088
<b>Balance at 30 June 2009</b>		<b>6,688,302</b>	<b>583,500</b>	<b>-</b>	<b>(7,574,141)</b>	<b>(302,339)</b>
Shares issued:						
Ordinary shares	18a)	261,250	-	-	-	261,250
Redeemable converting preference shares	18b)		921,600	-	-	921,600
Profit/ (Loss) for the year		-	-	-	(104,970)	(104,970)
<b>Balance at 30 June 2010</b>		<b>6,949,552</b>	<b>1,505,100</b>	<b>-</b>	<b>(7,679,111)</b>	<b>775,541</b>

The accompanying notes form part of these financial statements

**CLOSE THE LOOP LTD**  
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**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2010**

Note	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	14,804,385	12,427,487	-	-
Receipts from other income	99,863	92,592	1,712,211	672,413
Payments to suppliers and employees	(13,037,914)	(11,422,903)	(1,017,990)	(849,246)
Interest received	3,666	11,397	1,222	7,053
Interest paid	(492,300)	(645,445)	(371,796)	(402,913)
Income tax paid	(33,884)	-	-	-
Net cash (used in)/ provided by operating activities	19(b) 1,343,816	463,128	323,647	(572,693)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Payment for property, plant & equipment	(2,144,552)	(852,661)	-	-
Payment for other non current assets	(56,270)	(69,779)	-	-
Purchase of investments	-	-	(2,154,272)	-
Net cash (used in)/ provided by investing activities	(2,200,822)	(922,440)	(2,154,272)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from convertible notes	230,400	75,000	230,400	75,000
Repayments of convertible notes	-	-	-	-
Proceeds from borrowings	515,199	489,118	800,000	-
Proceeds from share issue	1,172,850	-	1,172,850	-
Repayments of borrowings	(96,443)	(132,674)	(144,702)	(132,674)
(Advance)/repayments of loan to wholly owned entities	-	-	(184,129)	505,585
Advances of loans to directors	8,940	18,220	8,940	18,220
Net cash provided by financing activities	1,830,946	449,664	1,883,359	466,131
Net increase/(decrease) in cash held	973,940	(9,648)	52,734	(106,562)
Cash at beginning of financial year	291,596	301,244	2,774	109,336
<b>Cash at the end of the financial year</b>	5 1,265,536	291,596	55,508	2,774

The accompanying notes form part of these financial statements

**CLOSE THE LOOP LTD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

This financial report includes the consolidated financial statements and notes of Close the Loop Ltd and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of Close the Loop Ltd as an individual parent entity ('Parent Entity').

Close the Loop Ltd is a company limited by shares incorporated and domiciled in Australia.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Preparation**

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

**Compliance with Australian Accounting Standards**

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

**Reporting Basis and Conventions**

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

The financial report has been presented in Australian dollars.

The financial report was authorised for issue on 1st November 2010 by the Board of Directors.

Class Order [CO 10/654] 'Inclusion of parent entity financial statements in financial reports allows companies ... That present consolidated financial statements to include their own parent entity financial statements as part of their full year financial report or concise report under Chapter 2M of the Act. Entities taking advantage of the relief are not required to present the summary parent entity information otherwise required by regulation 2M.3.01. The directors' declaration and auditor's report must include the relevant opinions in relation to the parent entity financial statements and related notes.'

**a. Principles of Consolidation**

A controlled entity is any entity over which Close the Loop Ltd has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 26 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered/(left) the consolidated group during the year, their operating results have been included/ (excluded) from the date control was obtained/ (ceased).

Where controlled entities have entered or left the consolidated group during the financial year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**a. Principles of Consolidation (cont'd)**

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

***Business combinations***

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination, one of the combining entities must be identified as the acquirer (ie parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

**b. 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 settlement of liabilities in the ordinary course of business.

As at 30 June 2010 the consolidated group's total liabilities exceeded total assets by \$417,966, there was a deficiency of net tangible assets of \$624,232 and an excess of current liabilities over current assets of \$1,951,795.

The group successfully raised \$2,833,175 in 2009-10 to fund the acquisition of new processing equipment in Hebron, Kentucky, USA. This funding was in the form of \$921,600 equity and \$1,911,575 of debt.

The Secured Convertible Notes issued by the company fell due on 31 October 2010. The Note Holders and the company have entered a new Secured Convertible Note Deed, on favourable terms as set out at Note 15, with a maturity date of 31 October 2012.

The group's cash position improved substantially in 2009-10. Given the capital investment program committed to in 2010-11, the group and the consolidated group's short term cash forecasts demonstrate a reliance on certain creditors to defer their payment terms and continuation of short term bank funding to enable the group and the consolidated group to meet their obligations as they fall due. The Directors are confident of their ability to achieve the required level of financial support from those creditors and financiers.

The consolidated group has received confirmations from the creditors (principally represented by Directors) to defer the payment of amounts due to them at 30 June 2010 until the consolidated group's cash flow permits repayment.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**b. Going Concern (cont'd)**

In addition to this, management is aiming to continue the strong improvement in the cash flow position of the group by pursuing the following actions within the next 12 months: expand the contractual base of the group through provision of services to new customers and new services to existing customers; expanding the types of products collected in the collection infrastructure and paid for by the product manufacturers; and, expanding the volume and value of output streams arising from processing activities sold to third parties.

Close the Loop Inc. installed the toner cartridge processing line in June 2010, at its Hebron Kentucky plant. This is an important precursor to engaging more computer equipment vendors in collection and recycling imaging consumables, and signing new contracts for 2010 onwards.

Close the Loop Inc. is currently in active contract negotiations with several companies. The new equipment to process toner bottles has been identified and is expected to be installed by the end of 2010.

The consolidated group's profitability projections for the year ended 30 June 2011 and beyond are predicated on a successful expansion of the groups processing capacity and securing new contracts for the collection and recycling of imaging consumables.

Management has implemented stringent cost control and cash flow management plans across all entities in the group. Short term debt raised to fund the new equipment in Hebron, USA is expected to be repaid by April 2011 from internal cash flows.

Two operating entities Close the Loop Operations Pty Ltd (Australia) and Close the Loop Inc (USA) have traded profitably in the current year to date and are expected to continue to do so.

The company and consolidated group are in breach of their financing facilities at balance date and at the present time. Also refer to Note 15: Borrowings.

**c. Revenue**

***Sale of Goods***

Revenue from the sale of goods is recognised upon the collection and receipt of goods from customers as this corresponds to the transfer of significant risks and rewards of ownership of the goods.

Revenue from the collection of cartridges and toner bottles is recognised upon invoicing to the original equipment manufacturer ("OEM"). OEM's are invoiced once used cartridges and toner bottles have been processed by the company in preparation for recycling. Close the Loop invoices the OEM based on the number of units collected for recycling.

Revenue from the sale of recycled waste streams is recognised when invoiced to customers.

***Interest Revenue***

Interest revenue is recognised when it becomes receivable on a proportional basis taking in to account the interest rates applicable to the financial assets.

Other revenue is recognised when the right to receive the revenue has been established.

All revenue is stated net of the amount of goods and services tax (GST).

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**d. Borrowing Costs**

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

All other borrowing costs are recognised in income in the period in which they are incurred.

**e. Income Tax**

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

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities/ (assets) are therefore measured at the amounts expected to be paid to/ (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year. Unused tax losses will not be recognised as a deferred tax asset until it is probable that future taxable profits will be available against which the benefits of the deferred tax asset

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

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**e. Income Tax (cont'd)**

***Tax Consolidation***

Close the Loop Ltd and its wholly owned Australian subsidiaries have not formed an income tax consolidated group under tax consolidation legislation. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities/ (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are retained in each entity.

**f. Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within financial liabilities in current liabilities on the balance sheet.

**g. Inventories**

Inventories are measured at the lower of cost and net realisable value.

**h. Plant and Equipment**

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

***Capital Works in Progress***

Capital work in progress represents costs incurred to construct, assemble and/or install an asset. Once completed, the asset will be transferred to its relevant class of property, plant and equipment.

***Depreciation***

The depreciable amount of all fixed assets are depreciated as noted below over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use.

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

<u>Class of fixed asset</u>	<u>Depreciation rate</u>	
Plant and equipment		
- Computer equipment	40.00%	Reducing balance
- Others	5% to 25%	Straight line
Leasehold improvement	5%	Reducing balance

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of comprehensive income.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**i. Interests in Joint Ventures**

The consolidated group's shares of the assets, liabilities, revenue and expenses of jointly controlled operations have been included in the appropriate line items of the consolidated financial statements. Details of the consolidated group's interests are shown at Note 10.

Where the Group contributes assets to the joint venture or if the Group purchases assets from the joint venture, only the portion of the gain or loss that is not attributable to the Group's share of the joint venture shall be recognised. The Group, however, will recognise the full amount of any loss when the contribution results in a reduction in the net realisable value of current assets or an impairment loss.

**j. Intangible Assets**

Patents, trademarks and licences are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less accumulated amortisation and any impairment losses. Intangible assets are amortised over their estimated useful life which is 20 years.

**k. Leases**

***Finance Leases***

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

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

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

***Operating Leases***

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the lease term.

**l. Provisions**

Provisions are recognised when the consolidated group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at balance date.

**m. Employee Benefits**

Provision is made for the group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**n. Foreign Currency Transactions and Balances**

***Functional and presentation currency***

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

***Transactions and balances***

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

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

***Group Companies***

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

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.
- Income and expenses are translated at average exchange rates for the period.
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

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

**o. Impairment of Assets**

At the end of each reporting period, the consolidated group assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information including dividends received from subsidiaries deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

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

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**p. Comparative Figures**

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

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement of items in the financial statements or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

**q. Financial Instruments**

***Initial recognition and measurement***

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

***Classification and Subsequent Measurement***

Finance instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

*Amortised cost* is calculated as: (i) the amount at which the financial asset or financial liability is measured at initial recognition; (ii) less principal repayments; (iii) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and (iv) less any reduction for impairment.

*The effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not consider interests in subsidiaries, associates or joint venture entities as financial instruments.

***i) Loans and Receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period, which will be classified as non-current assets.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**q. Financial Instruments (cont'd)**

***Classification and Subsequent Measurement (cont'd)***

***ii) Financial Liabilities***

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

***Impairment***

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

***De-recognition***

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

**r. Critical Accounting Estimates and Judgments**

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

***Key estimates - Impairment***

The Group assesses impairment at the end of each reporting period by evaluation of conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

**s. Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**t. Adoption of New and Revised Accounting Standard**

During the current year the group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Close the Loop Ltd.

**AASB 3: Business Combinations**

In March 2008, the Australian Accounting Standards Board revised AASB 3, and as a result some aspects of business combination accounting have changed. Below is an overview of the key changes and the impact on the Group's financial statements.

*Recognition and measurement impact*

Recognition of acquisition costs — The revised version of AASB 3 requires that all costs associated with a business combination be expensed in the period in which they were incurred. Previously such costs were capitalised as part of the cost of the business combination.

No impact as no costs were incurred in making additional investment in Close the Loop Inc (USA) during the year.

*Disclosure impact*

The revised AASB 3 contains a number of additional disclosure requirements, not required by the previous version of AASB 3. The revised disclosures are designed to ensure that users of the Group's financial statements are able to understand the nature and financial impact of any business combinations on the financial statements.

**AASB 101: Presentation of Financial Statements**

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the group's financial statements.

*Disclosure impact*

Terminology changes — The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity — The revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income — The revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The group's financial statements now contain a statement of comprehensive income.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**t. Adoption of New and Revised Accounting Standard (cont'd)**

**AASB 101: Presentation of Financial Statements (cont'd)**

Other comprehensive income — The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

**u. New Accounting Standards for Application in Future Periods**

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the group follows:

- \* AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The group has not yet determined any potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;

- \* AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009–5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the group.

- \* AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB.

The group does not anticipate early adoption of any of the above Australian Accounting Standards.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**v. Retrospective Restatement - Prior Period Adjustments**

**i) Property, plant and equipment written off**

Calculation of the book value of property, plant and equipment written down for the year ended 30 June 2009 have been corrected to reflect the correct value of assets written down in Close the Loop Operations Pty Ltd.

The impact of this adjustment is that property, plant and equipment interests were overstated by \$155,909 and retained earnings of the consolidated group was overstated by \$155,909 as at 30 June 2009.

Accounting Standard AASB108 - Accounting Policies, Changes in Accounting Estimates and Errors has been adopted to restate the financial statements of the group. The accounts affected by this restatement are set out below:

<b>Consolidated Group</b>			
<b>30 June 2009</b>			
	Previously Stated	Adjustment	Restated
	Dr/ (Cr)	Dr/ (Cr)	Dr/ (Cr)
<u>Statement of financial position</u>			
Property, plant and equipment	2,656,443	(155,909)	2,500,534
Accumulated losses b/f	9,012,716	155,909	9,168,625
	11,669,159	-	11,669,159
 <u>Statement of comprehensive income</u>			
Other expenses	729,509	155,909	885,418
Profit/ (Loss) for the year	1,059,840	155,909	1,215,749

**ii) Production cost cut off**

During the year, the group determined that certain production costs should have been accrued for in the year ended 30 June 2009 in order to appropriately match revenues with expenses.

The impact of this adjustment is that payables and retained earnings of the consolidated group was understated by \$105,992 as at 30 June 2009.

Accounting Standard AASB108 - Accounting Policies, Changes in Accounting Estimates and Errors has been adopted to restate the financial statements of the group. The accounts affected by this restatement are set out below:

<b>Consolidated Group</b>			
<b>30 June 2009</b>			
	Previously Stated	Adjustment	Restated
	Dr/ (Cr)	Dr/ (Cr)	Dr/ (Cr)
<u>Statement of financial position</u>			
Trade and other payables	(3,077,442)	(95,388)	(3,172,830)
Foreign currency translation reserve	(22,773)	(10,604)	(33,377)
Accumulated losses b/f	9,168,625	105,992	9,274,617
	6,068,410	-	6,068,410
 <u>Statement of comprehensive income</u>			
Cost of sales	7,403,663	105,992	7,509,655
Profit/ (Loss) for the year	1,215,749	105,992	1,321,741

**CLOSE THE LOOP LTD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**v. Retrospective Restatement - Prior Period Adjustments**

**iii) Reclassifications**

The Group has made certain reclassifications to its 2009 financial statements to conform with the 2010 presentation, with no effect or change to the loss for the year or total equity.

Accounting Standard AASB108 - Accounting Policies, Changes in Accounting Estimates and Errors has been adopted to restate the financial statements of the group. The accounts affected by this restatement are set out below:

<b>Consolidated Group</b>			
<b>30 June 2009</b>			
	Previously Stated	Adjustment	Restated
	Dr/ (Cr)	Dr/ (Cr)	Dr/ (Cr)
<u>Statement of financial position</u>	\$	\$	\$
Borrowings - current	(3,124,319)	(56,248)	(3,180,567)
Borrowings - non current	(552,579)	56,248	(496,331)
	(3,676,898)	-	(3,676,898)

<b>Parent Entity</b>			
<b>30 June 2009</b>			
	Previously Stated	Adjustment	Restated
	Dr/ (Cr)	Dr/ (Cr)	Dr/ (Cr)
<u>Statement of financial position</u>	\$	\$	\$
Borrowings - current	(2,332,174)	(56,248)	(2,388,422)
Borrowings - non current	(142,294)	56,248	(86,046)
	(2,474,468)	-	(2,474,468)

**Overall impact of all Retrospective restatements, including reclassifications**

<b>Consolidated Group</b>			
<b>30 June 2009</b>			
	Previously Stated	Adjustment	Restated
	Dr/ (Cr)	Dr/ (Cr)	Dr/ (Cr)
<u>Statement of comprehensive</u>	\$	\$	\$
Cost of sales	7,403,663	105,992	7,509,655
Other expenses	729,509	155,909	885,418
Profit/ (Loss) for the year	1,057,840	261,901	1,319,741
<u>Statement of financial position</u>			
Property, plant and equipment	2,656,443	(155,909)	2,500,534
Trade and other payables	(3,077,442)	(95,388)	(3,172,830)
Borrowings - current	(3,124,319)	(56,248)	(3,180,567)
Borrowings - non current	(552,579)	56,248	(496,331)
Foreign currency translation reserve	(22,773)	(10,604)	(33,377)
Accumulated losses b/f	9,012,716	261,901	9,274,617
	4,892,046	-	4,892,046

**CLOSE THE LOOP LTD**  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**s. Retrospective Restatement - Prior Period Adjustments**

*Overall impact of all Retrospective restatements, including reclassifications*

	<b>Parent Entity 30 June 2009</b>		
	Stated	Adjustment	Restated
	Dr/ (Cr) \$	Dr/ (Cr) \$	Dr/ (Cr) \$
<u>Statement of financial position</u>			
Borrowings - current	(2,332,174)	(56,248)	(2,388,422)
Borrowings - non current	(142,294)	56,248	(86,046)
	<u>(2,474,468)</u>	<u>-</u>	<u>(2,474,468)</u>

	Note	<b>Consolidated Group</b>		<b>Parent Entity</b>	
		2010 \$	2009 \$	2010 \$	2009 \$
<b>NOTE 2 : REVENUE AND OTHER INCOME</b>					
<b>Operating Activities:</b>					
Services rendered		14,866,655	11,878,363	-	-
<b>Other income</b>					
Interest		3,666	11,397	1,222	7,053
Other revenue		99,863	92,592	101,580	231,347
Management and strategic fees		-	-	1,275,711	428,938
		<u>103,529</u>	<u>103,989</u>	<u>1,378,513</u>	<u>667,338</u>
Total Revenue		<u>14,970,184</u>	<u>11,982,352</u>	<u>1,378,513</u>	<u>667,338</u>

**NOTE 3: PROFIT/ (LOSS) FOR THE YEAR**

Profit/ (Loss) for the year before income tax expense has been determined after charging/ (crediting):

**a. Expenses**

Finance costs					
Interest expense		477,579	617,462	357,075	374,930
Finance lease charges		14,721	27,983	14,721	27,983
Total finance costs		<u>492,300</u>	<u>645,445</u>	<u>371,796</u>	<u>402,913</u>
Depreciation of property, plant and equipment		631,852	617,080	-	-
Property, plant and equipment written off		32,306	258,073	-	-
Patents and trademarks written off		218,145	-	-	-
Amortisation of non-current assets					
Patents and trademarks		39,649	40,772	-	-
		<u>39,649</u>	<u>40,772</u>	<u>-</u>	<u>-</u>

	Note	Consolidated Group		Parent Entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
<b>NOTE 3: PROFIT/ (LOSS) FOR THE YEAR (cont'd)</b>					
Bad and doubtful debts		-	(7,500)	-	-
Remunerations of the Auditor of the parent entity for					
- Audit services					
* 2010 audit fee provision		50,000	-	50,000	-
* 2009 audit fee provision		-	60,000	-	60,000
* 2008 audit fee (over)/under provided		(43,091)	77,010	(43,091)	77,010
- Other services		1,348	-	1,348	-
		<u>8,257</u>	<u>137,010</u>	<u>8,257</u>	<u>137,010</u>
Remunerations of other auditors of subsidiaries for					
- Audit services		12,449	-	-	-
- Other services		-	-	-	-
		<u>12,449</u>	<u>-</u>	<u>-</u>	<u>-</u>
Rental expense on operating leases					
-Lease payment		1,065,734	609,712	-	-
Foreign currency translation losses		<u>(3,442)</u>	<u>(6,271)</u>	<u>3,006</u>	<u>2,493</u>
Employee benefits					
Salaries and wages		5,079,963	4,332,593	636,266	482,651
Superannuation		346,372	340,228	58,006	101,526
		<u>5,426,335</u>	<u>4,672,821</u>	<u>694,272</u>	<u>584,177</u>

**b. Significant Revenues and Expenses**

The following significant revenue and expense items are relevant in explaining the financial performance:

Reduction in provision for diminution of investment in subsidiary

Reduction in provision for diminution of investment in subsidiary	-	-	-	(1,351,662)
Plant & equipment written off	32,306	258,073	-	-
Patents and trademarks written off	218,145	-	-	-
Consultants, compliance and fundraising costs for internal expansion	<u>47,520</u>	<u>80,828</u>	<u>47,520</u>	<u>80,828</u>

**NOTE 4 : INCOME TAX EXPENSE**

**a.** The components of tax expense

Current tax	31,342	-	-	-
Deferred tax	<u>2,542</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>33,884</u>	<u>-</u>	<u>-</u>	<u>-</u>

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Note	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>NOTE 4 : INCOME TAX EXPENSE (cont'd)</b>				
<b>b.</b> The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows: Prima facie income tax payable on profit before income tax at 30% (2009: 30%)				
	90,768	(395,922)	(31,491)	101,726
<u>Add</u>				
Tax effect of:				
Tax losses not brought to account	147,287	395,922	67,491	-
	<u>238,055</u>	<u>-</u>	<u>36,000</u>	<u>101,726</u>
<u>Less</u>				
Recoupment of prior year tax losses not previously brought to account	(113,147)	-	-	(101,726)
Tax effect of Other	(91,024)	-	-	-
Income tax expense attributable to profit	<u>33,884</u>	<u>-</u>	<u>36,000</u>	<u>-</u>

**NOTE 5 : CASH AND CASH EQUIVALENTS**

Cash on hand and at bank	1,265,536	291,596	55,508	2,774
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**NOTE 6 : TRADE AND OTHER RECEIVABLES**

**CURRENT**

Trade receivables	2,381,287	1,693,060	-	-
Provision for doubtful debts	-	-	-	-
	<u>2,381,287</u>	<u>1,693,060</u>	<u>-</u>	<u>-</u>

Amount due from controlled entities	-	-	603,311	419,182
Less: Provisions for impairment	-	-	-	-
	<u>-</u>	<u>-</u>	<u>603,311</u>	<u>419,182</u>

Other receivables	120,709	119,662	-	-
Total current trade and other receivables	<u>2,501,996</u>	<u>1,812,722</u>	<u>603,311</u>	<u>419,182</u>

**NON CURRENT**

Amounts receivable from Directors	-	8,940	-	8,940
Amount due from controlled entities	-	-	1,340,726	1,675,646
Total non current trade and other receivables	<u>-</u>	<u>8,940</u>	<u>1,340,726</u>	<u>1,684,586</u>

Total trade and other receivables	<u>2,501,996</u>	<u>1,821,662</u>	<u>1,944,037</u>	<u>2,103,768</u>
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**a. Amount due from controlled entities**

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

**b. Amount receivable from Directors**

Loan advanced to Stephen Morriss for \$38,081 in 2007 was based on normal commercial terms and conditions. Interest was charged at 5.75% (2009 : 9.45%) per annum and was repaid in full in this period.

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**NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 6 : TRADE AND OTHER RECEIVABLES (cont'd)**

**c. Provision for impairment of receivables**

Current trade and term receivables are non-interest bearing loans and generally on 30-day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses item.

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Note</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Movement in the provision for impairment of receivables is as follows:				
Provision for impairment at 1 July	-	7,500	-	4,011,595
Charge for the year	-	(7,500)	-	-
Written off/ (back)	-	-	-	(4,011,595)
Provision for impairment at 30 June	-	-	-	-

**Credit Risk**

The group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for. The main source of credit risk to the group is considered to relate to the class of assets described as 'trade and other receivables'.

The following table details the group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled within the terms and conditions agreed between the group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

**Trade Debtors**

Gross Amount	2,381,287	1,693,060	-	-
Past due and impaired	-	-	-	-
Past due, but not impaired (days overdue)				
<30 days	-	4,683	-	-
31 to 90+ days	138,190	13,355	-	-
Within initial trade terms	2,243,097	1,675,022	-	-

**Amount due from controlled entities**

Gross Amount	-	-	1,944,037	2,094,828
Past due and impaired	-	-	-	-
Within initial trade terms	-	-	1,944,037	2,094,828

**Other receivables**

Within initial trade terms	120,709	119,662	-	-
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**Amount receivable from Directors**

Within initial trade terms	-	8,940	-	8,940
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Neither the group nor the parent entity hold any financial assets whose terms have been renegotiated, but which would otherwise be past due or impaired.

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

**NOTE 6 : TRADE AND OTHER RECEIVABLES (cont'd)**

**d. Financial assets classified as loans and receivables**

Trade and other receivables are classified as loans and receivable financial assets

**e. Collateral pledged**

No collateral is held over trade and other receivables.

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
<b>Note</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>NOTE 7 : INVENTORIES</b>				
CURRENT				
Finished goods at cost	3,298	4,293	-	-
Consumables at cost	45,154	43,601	-	-
	48,452	47,894	-	-

**NOTE 8 : OTHER ASSETS**

Prepayments	98,265	-	-	-
Other Assets	130	2,043	-	-
	98,395	2,043	-	-

**NOTE 9 : TAX ASSETS AND LIABILITIES**

**a. Assets**

CURRENT

Deferred tax asset	2,542	-	-	-
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Deferred tax assets

Accruals	106,211	-	-	-
Property plant and equipment - tax allowance	(111,393)	-	-	-
Other	7,346	-	-	-
	2,164	-	-	-

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(e) occur:

Tax losses from operations	5,598,186	5,337,752	4,324,818	4,257,327
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**b. Liabilities**

CURRENT

Income tax liability	38,951	-	-	-
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**CLOSE THE LOOP LTD**  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010**

Note	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>NOTE 10 : FINANCIAL ASSETS</b>				
NON CURRENT				
Shares in subsidiaries at cost	-	-	5,418,497	3,264,225
Less provision for diminution	-	-	(1,912,556)	(1,912,556)
	-	-	3,505,941	1,351,669
<b><i>Movement in provision for diminution</i></b>				
Balance at 1 July	-	-	(1,912,556)	(3,264,218)
Reduction transferred to Income Statement	-	-	-	1,351,662
Balance at 30 June	-	-	(1,912,556)	(1,912,556)
<b>NOTE 11 : JOINT VENTURE</b>				
<b><i>Interest in joint ventures</i></b>				
Close the Loop Ltd has a 50% interest in the Penloop Joint Venture, whose principal activity is the production and sale of writing materials produced using recyclables.				
The Penloop Joint Venture has not commenced operations as at 30 June 2010.				
The consolidated group's share of assets				
Current assets	-	-	-	-
Non current assets	-	-	-	-
Share of total assets of joint venture	-	-	-	-
<b>NOTE 12 : PROPERTY, PLANT &amp; EQUIPMENT</b>				
<b><i>Assets not yet in service</i></b>	1,566,302	-	-	-
<b><i>Leasehold improvement</i></b>				
Leasehold improvement, at cost	87,221	58,765	-	-
Accumulated depreciation	(20,263)	(11,833)	-	-
	66,958	46,932	-	-
<b><i>Plant and equipment</i></b>				
Plant and equipment, at cost	4,988,962	4,592,954	-	-
Accumulated depreciation	(2,664,376)	(2,139,352)	-	-
	2,324,586	2,453,602	-	-
Total property, plant and equipment	3,957,846	2,500,534	-	-

# CLOSE THE LOOP LTD

A.C.N 91 095 718 317

## AND CONTROLLED ENTITIES

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

#### NOTE 12 : PROPERTY, PLANT & EQUIPMENT (cont'd)

##### *Movements in carrying amounts*

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

Consolidated Group	Assets not			Total
	yet in service	Plant and equipment	Leasehold improvement	
Balance at 1 July 2009	152,966	2,189,588	27,542	2,370,096
Additions	-	823,481	29,180	852,661
Transfer	(152,966)	152,966	-	-
Write off	-	(258,073)	-	(258,073)
Depreciation	-	(607,174)	(9,906)	(617,080)
Translation difference	-	152,814	116	152,930
Balance at 30 June 2009	-	2,453,602	46,932	2,500,534
Additions	1,508,728	560,407	29,253	2,098,388
Transfer	-	(4,769)	4,769	-
Write off	-	(32,306)	-	(32,306)
Depreciation	-	(627,187)	(4,665)	(631,852)
Translation difference	57,574	(25,161)	(9,331)	23,082
Balance at 30 June 2010	1,566,302	2,324,586	66,958	3,957,846

Note	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>NOTE 13 : INTANGIBLE ASSETS</b>				
Patent, trademarks and licenses at cost	245,593	485,763	-	-
Less Accumulated amortisation	(39,327)	(77,973)	-	-
Total intangible assets	206,266	407,790	-	-

##### *Reconciliation of Intangible Assets Patents, Trademarks & Licenses*

Balance at 1 July	407,790	378,783	-	-
Additions	56,270	69,779	-	-
Amortisation expense	(39,649)	(40,772)	-	-
Write off	(218,145)	-	-	-
Balance at 30 June	206,266	407,790	-	-

#### NOTE 14 : TRADE AND OTHER PAYABLES

##### CURRENT

##### *Unsecured liabilities*

Trade creditors	936,029	1,558,248	231,462	465,157
Sundry creditors and accruals	2,665,800	1,614,582	1,105,637	806,202
Deferred revenue	277,276	-	-	-
	3,879,105	3,172,830	1,337,099	1,271,359

##### *Financial liabilities at amortised cost classified as trade and other payables*

Trade and other payables are classified as financial liabilities at amortised cost.

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**NOTES TO THE FINANCIAL STATEMENTS  
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	Note	Consolidated Group		Parent Entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
<b>NOTE 15: BORROWINGS</b>					
<b>CURRENT</b>					
<i>Secured Liabilities</i>					
Bank loans		668,578	792,145	-	-
Convertible notes	17	-	2,243,693	-	2,243,693
Other borrowing		800,000	-	800,000	-
Note payable		209,895	-	-	-
Finance lease liability	20a	96,749	144,729	86,073	144,729
		<u>1,775,222</u>	<u>3,180,567</u>	<u>886,073</u>	<u>2,388,422</u>
<b>NON-CURRENT</b>					
<i>Secured Liability</i>					
Convertible notes	17	2,474,093	-	2,474,093	-
Note payable		39,156	410,285	-	-
Finance lease liability	20a	37,583	86,046	-	86,046
		<u>2,550,832</u>	<u>496,331</u>	<u>2,474,093</u>	<u>86,046</u>
Total borrowings		<u>4,326,054</u>	<u>3,676,898</u>	<u>3,360,166</u>	<u>2,474,468</u>
Total current and non-current secured liabilities:					
Bank loans		668,578	792,145	-	-
Convertible notes	17	2,474,093	2,243,693	2,474,093	2,243,693
Other borrowing		800,000	-	800,000	-
Note payable		249,051	410,285	-	-
Finance lease liability		134,332	230,775	86,073	230,775
		<u>4,326,054</u>	<u>3,676,898</u>	<u>3,360,166</u>	<u>2,474,468</u>

***Collateral provided***

The bank loans are secured to a maximum of \$900,000 in priority to the Convertible Note Holders as follows:

- a) Fixed and floating charge over the whole of the assets of Close the Loop Operations Pty Ltd including goodwill and unallocated capital and called but unpaid capital together with relevant insurance assigned to the National Australia Bank Limited
- b) Guarantee and indemnity for \$900,000 given by Close the Loop Technologies Pty Ltd supported by:  
Fixed and Floating Charges over the whole of the assets of Close the Loop Technologies Pty Ltd including goodwill and uncalled capital and called but unpaid capital together with relative insurance policy assigned to the National Australia Bank Limited
- c) A deed of subordination from Close the Loop Limited in respect of amounts due from Close the Loop Operations Pty Ltd and Close the Loop Technologies Pty Ltd.
- d) Acceptable insurance policy on accounts receivable, in the name of the Borrower, where the Bank is listed as joint insured and first-loss payee
- e) A deed of priority and a deed of subordination by the Note Holders

The other borrowings are secured by a fixed and floating charge over the assets of the company.

The notes payable to a third party are secured by the plant and equipment acquired with the funding.

Currently unutilised banking facilities with a US bank are secured by the underlying equipment and other assets of CtL Inc, including the receivables and life insurance policy of the key management personnel.

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**NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 15: BORROWINGS (cont'd)**

**Collateral provided (cont'd)**

Lease liabilities are secured by the underlying leased assets.

**Breaches of Covenants**

Convertible Notes – breach of required gearing ratio. The company was in breach of the required gearing ratio under the terms of the original Convertible Note Deed. This breach no longer applies under the terms of the new Convertible Note Deed and interest on the notes will now accrue at the 90 day bank bill rate plus 3%, adjusted every 90 days. At 30 June 2010, the Convertible Notes were classified as a current liability. However, following the signing of a new Convertible Note Deed subsequent to 30 June 2010, the Convertible Notes have now been reclassified as a non current liability as the notes are not due for repayment until 31 October 2012. Refer also to Note 1(b).

The Directors also note that in accordance with the terms of the facilities, a breach of one facility will also constitute a breach of the other facilities under the cross default clauses contained within the agreements.

Note	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>NOTE 16 : PROVISIONS</b>				
<b>Provision for employee benefits</b>				
Current	175,438	111,594	32,680	14,723
Non Current	79,451	79,635	-	-
Total provisions	<u>254,889</u>	<u>191,229</u>	<u>32,680</u>	<u>14,723</u>

The provision for employee benefits includes entitlement for both annual leave and long service leave.

**Provision for long-term employee benefits**

A provision has been recognised for employee benefits relating to long service leave for employees. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based upon historical data. The measurement and recognition criteria for employee benefits has been included in Note 1(l).

**NOTE 17 : CONVERTIBLE NOTES**

Notes Issued on 4 July 2007	1,904,693	1,904,693	1,904,693	1,904,693
Notes Issued on 24 October 2007	164,000	164,000	164,000	164,000
Notes Issued on 9 November 2007	100,000	100,000	100,000	100,000
Notes Issued on 1 July 2008	75,000	75,000	75,000	75,000
Notes issued from January to March 2010	230,400	-	230,400	-
	<u>2,474,093</u>	<u>2,243,693</u>	<u>2,474,093</u>	<u>2,243,693</u>
Current	-	2,243,693	-	2,243,693
Non Current	2,474,093	-	2,474,093	-
Total convertible notes	<u>2,474,093</u>	<u>2,243,693</u>	<u>2,474,093</u>	<u>2,243,693</u>

Between January and March 2010 the company issued new Secured Convertible Notes to the value of \$230,400 to Gregory Turnidge and CTL Nominees Pty Ltd. These Notes were issued in relation to the capital raising to fund the new equipment to be installed at the company's Hebron facility.

As at 30 June 2010 the amount of principal and accumulated interest owed to all note holders amounted to \$3,460,945. Should this amount be converted, the maximum number of shares that would be issued is 57,682,419 which would represent 35.2% of all issued capital of the Company.

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## AND CONTROLLED ENTITIES

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

Note	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>NOTE 18 : SHARE CAPITAL</b>				
Issued and paid up capital				
91,265,849 (2009: 88,653,349) Ordinary shares	6,949,552	6,688,302	6,949,552	6,688,302
15,051,000 (2009: 5,835,000) Redeemable converting preference shares	1,505,100	583,500	1,505,100	583,500
	8,454,652	7,271,802	8,454,652	7,271,802
<b>a. Ordinary Shares</b>				
At 1 July	6,688,302	6,680,302	6,688,302	6,680,302
Shares issued during the year at \$0.10 each				
80,000 on 30 April 2009	-	8,000	-	8,000
112,500 on 6 August 2009	11,250	-	11,250	-
2,500,000 on 30 June 2010	250,000	-	250,000	-
At 30 June	6,949,552	6,688,302	6,949,552	6,688,302
	<b>No of shares</b>	<b>No of shares</b>	<b>No of shares</b>	<b>No of shares</b>
At the beginning of reporting period	88,653,349	88,573,349	88,653,349	88,573,349
Shares issued during year				
30 April 2009	-	80,000	-	80,000
6 August 2009	112,500	-	112,500	-
30 June 2010	2,500,000	-	2,500,000	-
At 30 June	91,265,849	88,653,349	91,265,849	88,653,349
<b>b. Redeemable converting preference shares (RCPS)</b>				
At 1 July	583,500	583,500	583,500	583,500
Shares issued during the year at \$0.10 each				
3,376,440 in January 2010	337,644	-	337,644	-
3,199,560 in February 2010	319,956	-	319,956	-
2,640,000 in March 2010	264,000	-	264,000	-
At 30 June	1,505,100	583,500	1,505,100	583,500
	<b>No of shares</b>	<b>No of shares</b>	<b>No of shares</b>	<b>No of shares</b>
At 1 July	5,835,000	5,835,000	5,835,000	5,835,000
Shares issued during the year				
January 2010	3,376,440	-	3,376,440	-
February 2010	3,199,560	-	3,199,560	-
March 2010	2,640,000	-	2,640,000	-
At 30 June	15,051,000	5,835,000	15,051,000	5,835,000

#### **Ordinary Shares**

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

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**NOTE 18 : SHARE CAPITAL (cont'd)**

***Redeemable converting preference shares ("RCPS")***

At any meeting of the parent entities shareholders, a RCPS will confer on its holder the same voting rights as an ordinary share. A holder of a RCPS will be entitled to participate in all pro rata issues of securities in the same manner and on the same basis as the holders of ordinary shares.

A RCPS may at the election of the holder, be converted into one ordinary share in the parent entity at any time up until the 30th June 2014.

Dividends are payable on the RCPS at the same rate and on the same date as dividends declared by the Board on ordinary fully paid Securities and will be non-cumulative.

A RCPS on winding up entitles the holder to the payment of the issue price in respect of the security, together with accrued dividends and any dividend declared but unpaid in priority to any payment of capital or other distribution on any ordinary share. Thereafter, holders of ordinary shares and holders of RCPS will participate equally in any surplus, pro rata according to their holdings

**c. Options**

***Options under the Employee Share Option Plan or contractual arrangement***

Under the Close the Loop Ltd Employee Share Option Plan, share options are granted to full time or part time permanent employees, with more than one year service to a company within the Group and who received more than 80% of their income from that entity. Under this Share Option Plan, options are exercisable on or before the expiry date at an exercise price of \$0.10 each as detailed below. The options grant no voting or dividend rights and are not transferable.

The company established the Employee Share Option Plan in October 2006 as a long-term incentive scheme to recognise talent and motivate employees to strive for group performance.

Details of Options granted pursuant to Employee Share Option Plan or contractual arrangement

<u>Grant Date</u>	<u>Options granted</u>	<u>Exercise Price</u>	<u>Date of Expiry</u>
30 April 2009	1,960,000	\$0.10	30 November 2011
30 June 2010	9,000,000	\$0.10	30 June 2015

Options granted to key management personnel and Directors as part of the Employee Share Option Plan are disclosed in Note 25.

At 30 June 2010, the Directors considered that the fair value of a company ordinary share equated to the exercise price. Accordingly, no adjustment is required to the financial statements.

***Options under the borrowing arrangements***

Between February and March 2010, 8,000,000 options were granted to short term lenders to the company, as disclosed in Note 19 c), to take up ordinary shares at an exercise price of \$0.10 each. The short term borrowing was part of the fundraising to purchase the equipment for Hebron, USA, The options are exercisable on or before 30 April 2013. The options grant no voting or dividend rights and are not transferable.

At 30 June 2010, the Directors considered that the fair value of a company ordinary share equated to the exercise price. Accordingly, no adjustment is required to the financial statements.

	Note	Consolidated Group		Parent Entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
<b>NOTE 18 : SHARE CAPITAL (cont'd)</b>					
<i>A summary of the movements of all company options issued is as follows:</i>					
Options outstanding as at 1 July		1,960,000	-	1,960,000	-
Granted		17,000,000	1,960,000	17,000,000	1,960,000
Forfeited		-	-	-	-
Exercised		-	-	-	-
Expired		-	-	-	-
Options outstanding as at 30 June		<u>18,960,000</u>	<u>1,960,000</u>	<u>18,960,000</u>	<u>1,960,000</u>

**d. Capital Management**

Management controls the capital of the group in order to maintain a good debt to equity ratio, to ensure that the group can fund its operations and continue as a going concern and provide the shareholders with adequate long run returns.

The group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year. This strategy is to over time reduce the gearing ratio. The gearing ratios for the year ended 30 June 2010 and 30 June 2009 are as follows:

Total borrowings	4,326,054	3,676,898	3,360,166	2,474,468
Trade and other payables	3,879,105	3,172,830	1,337,099	1,271,359
Less cash and cash equivalents	<u>(1,265,536)</u>	<u>(291,596)</u>	<u>(55,508)</u>	<u>(2,774)</u>
Net debt	6,939,623	6,558,132	4,641,757	3,743,053
Total equity	<u>(417,966)</u>	<u>(1,969,438)</u>	<u>775,541</u>	<u>(302,339)</u>
Total capital	<u>6,521,657</u>	<u>4,588,694</u>	<u>5,417,298</u>	<u>3,440,714</u>
Gearing ratio	106%	143%	86%	109%

**NOTE 19: CASH FLOW INFORMATION**

**a. Reconciliation of cash**

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash on hand and at bank	1,265,536	291,596	55,508	2,774
	<u>1,265,536</u>	<u>291,596</u>	<u>55,508</u>	<u>2,774</u>

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## AND CONTROLLED ENTITIES

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

	Consolidated Group		Parent Entity	
Note	2010	2009	2010	2009
	\$	\$	\$	\$
<b>NOTE 19: CASH FLOW INFORMATION (cont'd)</b>				
<b>b. Reconciliation of cash flow from operations with profit/(loss) from ordinary activities after income tax</b>				
Profit/ (Loss) from ordinary activities after income tax	268,677	(1,319,741)	(104,970)	339,088
Non-cash flows in profit from ordinary activities				
Amortisation of intangible assets	39,649	40,772	-	-
Depreciation of property, plant and equipment	631,852	617,080	-	-
Property, plant and equipment written off	32,306	258,073	-	-
Patents and trademarks written off	218,145	-	-	-
Reduction in provision for diminution of investment in subsidiary	-	-	-	(1,351,662)
Shares issued for no consideration	10,000	8,000	10,000	8,000
Foreign currency translation reserve movement	123,027	(161,200)	-	-
Changes in assets and liabilities				
Increase in receivables	(689,903)	(246,445)	334,920	-
(Increase)/decrease in other assets	(98,265)	-	-	12,128
(Increase) in inventories	(558)	37,265	-	-
Increase in payables	706,275	1,132,604	65,740	450,270
Increase in income tax payable	38,951	92,910	-	-
Increase in provisions	63,660	3,810	17,957	(30,517)
Cash Flows used in operations	1,343,816	463,128	323,647	(572,693)
<b>c. Credit standby arrangement and loan facilities</b>				
Credit and loan facilities available	900,000	1,500,000	-	-
Amount utilised	(668,578)	(792,145)	-	-
Unused loan facilities	231,422	707,855	-	-

#### **d. Loan Facilities**

The major facilities are summarised as follows:

##### **Bank Loans - Trade Assist Facility**

The trade assist facility is a cash flow financing facility for up to \$900,000. This facility allows the company to drawdown up to 80% of accounts receivable from specific named customers of Close the Loop Operations Pty Ltd. The facility has been rolled over to 30 November 2010, and discussions have commenced for Close the Loop Operations to enter into a new and probably different facility.

The facility is provided subject to:

- \* a Deed of Priority entered into between the bank and the Note Holders; and
- \* the company not breaching any borrowing requirements and the required financial ratios are met.

Interest rates are variable subject to adjustment after a period of 30 days. The current rate at 30 June 2010 is 8.34%.

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**NOTE 19: CASH FLOW INFORMATION (cont'd)**

**d. Loan Facilities (cont'd)**

**Other borrowing**

In conjunction with the separate Lending Agreements entered into with a third party and a director related entity, the company issued the lenders with 1,000,000 and 7,000,000 options respectively for shares in the company. Other borrowing incurs a variable interest rate and matures in April 2011. Current rate at 30 June 2010 is 9.18%

**Note payable**

The note payable with a financing company bears interest at 16%. In conjunction with the note payable agreement, the company issued the lender a warrant for the purchase of up to 45 shares of common stock at a purchase price of USD\$3,000 per share. The warrant expires seven years from the date of issuance or three years if certain stock transactions are consummated by Close the Loop Inc.

**Unutilised Facilities**

**Draw Note & Overdraft Facility**

In May 2010, Close the Loop Inc entered into borrowing agreements with a US bank. The bank provided a draw note facility which converts in 2011 to a five year term loan for US\$750,000 to fund the purchase of the new equipment, and an overdraft facility for US\$100,000 reviewable annually. As at 30 June 2010 neither of these facilities had been utilised.

**Factoring of Accounts Receivable (USA)**

At 30 June 2010, the outstanding balance of factored receivables was US\$Nil (2009: US\$118,205) and an accrual of US\$Nil (2009: US\$8,660) has been recorded to reflect fees owed to the Agent. Proceeds collected from factored receivables during the year ended 30 June 2010 totalled US\$Nil (2009: US\$1,587,147). This facility was terminated during the course of 2009-10.

	Note	Consolidated Group		Parent Entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
<b>NOTE 20: CAPITAL AND LEASING COMMITMENTS</b>					
<b>a. Finance lease commitments</b>					
Payable - minimum lease payments					
Not Later than one year		102,625	159,449	88,509	159,449
Later than one year and not later than five years		42,349	88,483	-	88,483
Minimum finance lease payments		144,974	247,932	88,509	247,932
Less future finance charges		(10,642)	(17,157)	(2,436)	(17,157)
Total finance lease liability		134,332	230,775	86,073	230,775
Represented by:					
Current liability	15	96,749	144,729	86,073	144,729
Non current liability	15	37,583	86,046	-	86,046
		134,332	230,775	86,073	230,775

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	Note	Consolidated Group		Parent Entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
<b>NOTE 20: CAPITAL AND LEASING COMMITMENTS (cont'd)</b>					
<b>b. Operating lease commitments</b>					
Non cancellable operating leases contracted for but not capitalised in the financial statements					
Payable:					
Not later than one year		793,231	781,163	374,464	357,224
Later than on year and not later than five years		2,282,672	2,675,811	547,009	786,865
Greater than five years		1,903,402	2,003,207	-	-
		<u>4,979,305</u>	<u>5,460,181</u>	<u>921,473</u>	<u>1,144,089</u>
<b>c. Capital expenditure commitments</b>					
Plant and equipment purchases		<u>3,555,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

**General description of leasing arrangement:**

The property lease for 208 Hume Highway Somerton, Victoria, is a non cancellable lease with a five year term with one year remaining. The rent is payable in advance. Contingent rental provisions within the lease agreement require that minimum lease payments shall be increased by the higher of CPI or 3% per annum. Options exist to renew the lease at the end of the term for an additional three terms of three years.

The equipment lease for a bobcat is a non-cancellable lease with a five year term ending 2011, with rent payable monthly in advance.

The equipment lease for a printer is a non-cancellable lease with a five year term ending 2014, with rent payable monthly in advance.

Close the Loop Inc entered into an agreement during 2008 to lease certain office and production space. The lease expires on 31 August 2018 with the option to renew for an additional 10 years.

Total rent expense for the year ended 30 June, 2010 was US\$547,257 (US\$359,616 in 2009). Rent expense in Close the Loop Inc is recognised using the straight-line method over the original lease term in accordance with international financial reporting standards (IFRS). The use of this method creates an accrued liability at the beginning of the lease that will be fully amortised by the end of the lease term. This liability amounted to US\$243,688 as at 30 June, 2010 (US\$243,688 in 2009).

**NOTE 21: CONTINGENT LIABILITIES**

The Directors are not aware of any other material contingent liabilities as at 30 June 2010 except for the

**NOTE 22: RELATED PARTY TRANSACTIONS**

**a. Directors**

The names of each person holding the position of Director during the financial year are  
Stephen Michael Morriss  
Craig Warren Devlin  
Gregory Elliot Turnidge  
Silvio Salom

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**NOTE 22: RELATED PARTY TRANSACTIONS (cont'd)**

**b. Directors shareholdings**

The aggregate number of ordinary shares of the company held by current Directors of Close the Loop Ltd and their Directors-related entities at balance date, being the number of shares held.

	2010	2009	2010	2009
	Ordinary Shares		Employee Share Options	
Stephen Michael Morriss	11,077,533	10,821,308	320,000	320,000
Craig Warren Devlin	518,455	518,455	-	-
Gregory Elliot Turnidge	-	-	1,175,000	1,175,000
	Redeemable converting preference shares		Options	
Gregory Turnidge	480,000	-	-	-
Silvio Salom	11,436,000	2,700,000	7,000,000	-

**c. Directors options**

On 30 April 2009, options were granted to certain employees pursuant to an Employee Share Option Plan passed at the AGM held October 2006.

Terms of the Employee Share Options are disclosed in Note 18 c).

Between February and March 2010, options were granted to short term lenders as disclosed in Note 19c), including a director related entity.

Terms of the options to short term lenders are are disclosed in Note 18 c).

**d. Transactions with Directors and Director related entities:**

Craig Devlin, a Director is also Director of Devlin Accounting Services Pty Ltd trading as Devlin BDG Pty Ltd (Formerly Devlin & Co). Close the Loop Ltd entered into transactions with Devlin BDG Pty Ltd during the year for general accounting and taxation services and Directorship services. The services were based on normal commercial terms and conditions.

The total amount paid or payable to Devlin BDG Pty Ltd was \$18,685 (2009: \$48,880) and the total amount outstanding to Devlin BDG Pty Ltd as at 30 June 2010 was \$97,103 (2009:\$84,219).

Loan advanced to Stephen Morriss for \$38,081 in 2007 was based on normal commercial terms and conditions. Interest was charged at 5.75% (2009 : 9.45%) per annum and was repaid in full in this period.

Greg Turnidge is also a Director of Galen Investments Pty Lt. Close the Loop Ltd entered into transactions with Galen Investments Pty Ltd during the year for reimbursement of expenses. The services were based on normal commercial terms and conditions.

The total amount paid or payable to Galen Investments Pty Ltd was \$15,299 (2009: \$8,248 ). The total amount outstanding to Galen Investments Pty Ltd as at 30 June 2010 was \$89,763 (2009 \$74,464).

Silvio Salom, a Director is also a former Director of Gramercy Inc. the parent company of Gramercy Venture Advisors Pty Ltd. Close the Loop Ltd entered into transactions with Gramercy Venture Advisors Pty Ltd between 2006 and 2008 to provide strategic advisory services and to assist the company to raise capital. In addition, Silvio also is a Director of Gramercy Private Equity Pty Ltd which entered into an agreement with Close the loop Ltd in 2010 to assist the company to raise capital. All services were based on normal commercial terms and conditions.

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**NOTE 22: RELATED PARTY TRANSACTIONS (cont'd)**

***d. Transactions with Directors and Director related entities (cont'd):***

The total amount paid or payable to Gramercy Venture Advisors Pty Ltd was \$86,372 (2009: \$163,390). The total amount outstanding to Gramercy Venture Advisors Pty Ltd as at 30 June 2010 was \$Nil (2009: \$163,390).

The total amount paid or payable to Gramercy Private Equity Pty Ltd was \$65,520 (2009: \$Nil). The total amount outstanding to Gramercy Private Equity Pty Ltd as at 30 June 2010 was \$Nil (2009: \$Nil).

***e. Transactions within the wholly owned group***

The wholly owned group consists of Close the Loop Ltd and its wholly owned controlled entities:

Close the Loop Operations Pty Ltd  
Close the Loop Technologies Pty Ltd  
Close the Loop Limited  
Close the Loop (Europe) Limited  
Close the Loop Inc

Percentage interests in these controlled entities are set out in Note 26.

Transaction between Close the Loop Ltd and other entities in the wholly owned group during the year ended 30 June 2010 consisted of:

***Conversion or write off or repayment of inter-company debt during the year.***

During the year Close the Loop Ltd reviewed the inter-company loan with CtL Inc. that had accumulated over a number of years, reflecting the allocation of expenses incurred by CtL Ltd on behalf CtL Inc. After assessing the capacity for CtL Inc to raise debt in its own right it was decided to convert the inter-company loan to shares. As a result of this decisions CtL Ltd increased its equity holding in CtL Inc by \$1,351,329.

During the year CtL Operations repaid \$312,042 to CtL Ltd.

***Loans advanced by Close the Loop Ltd to entities in the group during the year :***

During the year CtL Ltd incurred expenses on behalf of or advanced monies to group entities, effectively lending that money to the respective entity. The amounts for the year were \$16,545 for CtL (UK) Ltd.

***Lease/rental expenses incurred on behalf of controlled entities and recharged to them at cost:***

CtL Ltd is the principal borrower under lease arrangements entered into with Westpac Bank and Commonwealth Bank for the plant and equipment at the Somerton processing facility. During the year \$144,701 of lease servicing expenses were charged to CtL Operations covering the principal repayments for the year.

***Management fees and strategic fees charged to controlled entities:***

CtL Ltd incurs costs managing and overseeing its operations in Australia and the US. In addition it incurs certain costs in relation to management and oversight. These costs are recovered through levying a management fee. During the year CtL Ltd charged CtL Operations management fees totalling \$150,000 and charged CtL Inc a management fees and startegic fees of \$1,005,711.

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**NOTE 23: FINANCIAL RISK MANAGEMENT**

The group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills, loans and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	Consolidated Group		Parent Entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
<b>Financial assets</b>					
Cash and cash equivalents	5	1,265,536	291,596	55,508	2,774
Trade and other receivables	6	2,501,996	1,821,662	1,944,037	2,103,768
Other financial assets	10	-	-	3,505,941	1,351,669
		<u>3,767,532</u>	<u>2,113,258</u>	<u>5,505,486</u>	<u>3,458,211</u>
<b>Financial liabilities</b>					
Financial liabilities at amortised cost:					
- trade and other payables	14	3,879,105	3,172,830	1,337,099	1,271,359
- borrowings	15	4,326,054	3,676,898	3,360,166	2,474,468
		<u>8,205,159</u>	<u>6,849,728</u>	<u>4,697,265</u>	<u>3,745,827</u>

**Financial Risk Management Policies**

The Board of Directors meet on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts. The Directors' overall risk management strategy seeks to assist the company in meeting its financial targets, whilst minimising potential adverse effects on financial performance. The management team operates under policies approved by the Board of Directors. Risk management policies are approved and reviewed by the Board of Directors on a regular basis. These include the credit risk policies and future cash flow requirements.

The main purpose of non-derivative financial instruments is to raise finance for group operations. The group does not have any derivative instruments at 30 June 2010.

**Specific Financial Risk Exposures and Management**

The main risks the group is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

**a. Credit Risk**

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the group.

Credit risk is managed on a group basis and reviewed regularly by the Board of Directors. Credit risk is managed through maintaining procedures ensuring, to the extent possible, that customers and counterparties to transactions are of sound credit worthiness and includes the utilisation of systems for the approval, granting and renewal of credit limits, the regular monitoring of exposures against such limits and the monitoring of the financial stability of significant customers and counterparties. Such monitoring is used in assessing receivables for impairment. Depending on the division within the group, credit terms are generally 30 to 45 days from the date of invoice.

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**NOTE 23: FINANCIAL RISK MANAGEMENT (cont'd)**

**a. Credit Risk (cont'd)**

***Credit risk exposures***

The maximum exposure to credit risk by class of recognised financial assets at balance date is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the balance sheet.

The group has no significant concentration of credit risk with any single counterparty or group of counterparties.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed at Note 6.

The group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Consolidated Group. The trade receivables balances at 30 June 2010 and 30 June 2009 do not include any counterparties with external credit ratings. Customers are assessed for credit worthiness using the criteria detailed above.

**b. Liquidity risk**

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

- preparing cash flow budgets in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

**NOTE 23: FINANCIAL RISK MANAGEMENT (cont'd)**

**b. Liquidity risk (cont'd)**

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflect the earliest contractual settlement dates and do not reflect management's expectations that banking facilities will roll forward.

Consolidated Group	Within 1 year		1 to 5 years		Total	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
<b>Financial liabilities due for payment</b>						
Bank Loans	668,578	792,145	-	-	668,578	792,145
Convertible notes	-	2,243,693	2,474,093	-	2,474,093	2,243,693
Other borrowing	800,000	-	-	-	800,000	-
Note payable - Vencor	209,895	-	39,156	410,285	249,051	410,285
Finance lease liabilities	96,749	144,729	37,583	86,046	134,332	230,775
Trade and other payables	3,879,105	3,172,830	-	-	3,879,105	3,172,830
Total expected outflows	5,654,327	6,353,397	2,550,832	496,331	8,205,159	6,849,728
<b>Financial assets — cash flows realisable</b>						
Cash and cash equivalents	1,265,536	291,596	-	-	1,265,536	291,596
Trade, other and loan receivables	2,501,996	1,812,722	-	8,940	2,501,996	1,821,662
Total anticipated inflows	3,767,532	2,104,318	-	8,940	3,767,532	2,113,258
Net (outflow)/inflow on financial instruments	(1,886,795)	(4,249,079)	(2,550,832)	(487,391)	(4,437,627)	(4,736,470)
<b>Parent Entity</b>						
	Within 1 year		1 to 5 years		Total	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
<b>Financial liabilities due for payment</b>						
Bank Loans	-	-	-	-	-	-
Convertible notes	-	2,243,693	2,474,093	-	2,474,093	2,243,693
Other borrowing	800,000	-	-	-	800,000	-
Note payable - Vencor	-	-	-	-	-	-
Finance lease liabilities	86,073	144,729	-	86,046	86,073	230,775
Trade and other payables	1,337,099	1,271,359	-	-	1,337,099	1,271,359
Total expected outflows	2,223,172	3,659,781	2,474,093	86,046	4,697,265	3,745,827
<b>Financial assets — cash flows realisable</b>						
Cash and cash equivalents	55,508	2,774	-	-	55,508	2,774
Trade, other and loan receivables	603,311	419,182	1,340,726	1,684,586	1,944,037	2,103,768
Total anticipated inflows	658,819	421,956	1,340,726	1,684,586	1,999,545	2,106,542
Net (outflow)/inflow on financial instruments	(1,564,353)	(3,237,825)	(1,133,367)	1,598,540	(2,697,720)	(1,639,285)

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**NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 23: FINANCIAL RISK MANAGEMENT (cont'd)**

**b. Liquidity risk (cont'd)**

**Financial assets pledged as collateral**

Certain financial assets have been pledged as security for debt and their realisation into cash may be restricted subject to terms and conditions attached to the relevant debt contracts. Refer to Note 15 for further details.

**c. Market Risk**

**i. Interest rate risk**

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

Interest rate risk is managed using a mix of fixed and floating rate debt. At 30 June 2010 approximately 84% of group debt is fixed. It is the policy of the group to keep between 65% and 100% of debt on fixed interest rates.

The net effective variable interest rate borrowings (ie unhedged debt) exposes the group to interest rate risk which will impact future cash flows and interest charges and is indicated by the following floating interest rate financial liabilities:

	Note	Consolidated Group		Parent Entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
<b>Floating rate instruments</b>					
Bank loans		668,578	792,145	-	-
Other borrowing		800,000	-	800,000	-
		<u>1,468,578</u>	<u>792,145</u>	<u>800,000</u>	<u>-</u>

**ii. Foreign exchange risk**

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

With instruments being held by overseas operations, fluctuations in US Dollar and UK Pound Sterling may impact on the Group's financial results unless those exposures are appropriately hedged.

Group policy is to employ natural hedges between assets and liabilities that is to borrow in currencies that the group either holds assets or earns revenues in.

The foreign currency risk on the financial assets and liabilities of the Group's and of the parent's operations, denominated in currencies other than the functional currency of the operations is not considered material and is therefore not shown.

**iii. Price Risk**

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

The group is not exposed to any material commodity price risk.

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**NOTE 23: FINANCIAL RISK MANAGEMENT (cont'd)**

***Sensitivity analysis***

The following table illustrates sensitivities to the group's exposures to changes in interest rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
<b>+/- 2% in interest rates</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Profit	+/-4,000	+/- 10,000	+/-15,000	+/-0
Equity	+/-4,000	+/- 10,000	+/-15,000	+/-0

The above interest rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

***Net Fair Values***

***Fair value estimation***

Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Net fair value of assets and liabilities approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets. Financial assets where the carrying amount exceeds net fair values have not been written down as the group intends to hold these assets to maturity.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

**NOTE 24: SEGMENT REPORTING**

**Segment Information**

**Identification of reportable segment**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of geographical location as the different locations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics including the type or class of customer for the products or services and any external regulatory requirements.

**Basis of accounting for purposes of reporting by operating segments**

**a) *Accounting policies adopted***

Unless stated otherwise, all amounts reported to the Board of Directors, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

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**NOTE 24: SEGMENT REPORTING (cont'd)**

**b) Segment revenue & expenses**

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists.

**c) Intersegment Transfers**

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the consolidated group at an arm's length. These transfers are eliminated on consolidation.

**d) Segment assets**

Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis.

**e) Segment liabilities**

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables, employee benefits, accrued expenses, provisions and direct borrowings.

**f) Unallocated items**

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- finance costs
- intangible assets
- indirect borrowings

**g) Segment performance**

	Australia		International		Total	
	2010	2009	2010	2009	2010	2009
<b>REVENUE</b>						
External sales	8,228,866	8,605,700	8,049,510	4,109,710	16,278,376	12,715,410
Other segments	139,193	597,908	-	-	139,193	597,908
<b>Total segment revenue</b>	<b>8,368,059</b>	<b>9,203,608</b>	<b>8,049,510</b>	<b>4,109,710</b>	<b>16,417,569</b>	<b>13,313,318</b>
<i>Reconciliation of segment revenue to group revenue</i>						
Unallocated revenue					-	-
Elimination entries					(1,447,385)	(597,908)
Total group revenue					<b>14,970,184</b>	<b>12,715,410</b>
<b>Segment net profit/(loss) before tax</b>	<b>312,877</b>	<b>756,612</b>	<b>557,696</b>	<b>822,145</b>	<b>870,573</b>	<b>1,578,757</b>
<i>Reconciliation of segment result to group net profit/loss before tax</i>						
Finance costs					(492,300)	(645,445)
Profit/ (Loss) before income tax					<b>378,273</b>	<b>933,312</b>
Elimination entries					(75,712)	(2,253,053)
Profit/ (Loss) before income tax expense					<b>302,561</b>	<b>(1,319,741)</b>

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**NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 24: SEGMENT REPORTING (cont'd)**

**g) Segment performance (cont'd)**

	Australia		International		Total	
	2010	2009	2010	2009	2010	2009
<b>ASSETS</b>						
Segment assets	8,935,960	7,451,022	5,059,303	1,463,527	13,995,263	8,914,549
Unallocated assets					206,266	407,790
Less intersegment assets					-	-
Elimination entries					(6,120,496)	(4,250,820)
Total assets					<u>8,081,033</u>	<u>5,071,519</u>
<b>LIABILITIES</b>						
Segment liabilities	(4,876,891)	(5,692,930)	(2,962,570)	(2,118,467)	(7,839,461)	(7,811,397)
Unallocated liabilities					(3,274,093)	(2,243,693)
Less intersegment liabilities					-	-
Elimination entries					2,614,555	3,014,133
Total liabilities					<u>(8,498,999)</u>	<u>(7,040,957)</u>
<b>OTHER</b>						
Acquisition of non current segment assets	370,559	291,121	1,784,099	561,540	2,154,658	852,661
Depreciation and amortisation of segment assets	504,577	509,187	166,924	148,665	671,501	657,852
Property, plant and equipment written off	32,306	102,164	-	-	32,306	102,164
Patents and trademarks written off	218,145	-	-	-	218,145	-

**NOTE 25: KEY MANAGEMENT PERSONNEL COMPENSATION**

	Note	Consolidated Group		Parent Entity	
		2010	2009	2010	2009
Short term employee benefits		\$ 820,968	\$ 448,799	\$ 396,697	-
Director fees		45,000	137,250	-	-
Total compensation		<u>865,968</u>	<u>586,049</u>	<u>396,697</u>	<u>-</u>

During the year, the President of Close the Loop Inc was issued with 2,400,000 shares at \$0.10 and 6,600,000 options exercisable at \$0.10 in Close the Loop Limited each as part of his Employment Agreement.

There have been no other transactions involving equity instruments other than those described in Note 22 above. For details of other transactions with key management personnel, refer also to Note 22: Related Party Transactions.

For details of loans to key management personnel, refer to Note 6: Trade and Other Receivables.

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**NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 26: CONTROLLED ENTITIES**

***Controlled entities***

	<b>Country of Incorporation</b>	<b>Percentage Owned</b>	
		<b>2010</b>	<b>2009</b>
<b><i>Parent Entity</i></b>			
Close the Loop Ltd	Australia		
<b><i>Subsidiaries of Close the Loop Ltd</i></b>			
Close the Loop Operations Pty Ltd	Australia	100	100
Close the Loop Technologies Pty Ltd	Australia	100	100
Close the Loop (UK) Limited	Dormant United Kingdom	100	100
Close the Loop (Europe) Limited	United Kingdom	100	100
Close the Loop Inc	United States of America	100	100

**NOTE 27: EVENTS AFTER THE REPORTING PERIOD**

The Convertible Notes, which fell due on 31 October 2010, have been rolled over into a new Secured Convertible Note Deed, signed by the Note Holders and the company and effective from 1 November 2010. For further details, refer to Note 15 of the Notes to the Financial Statements. During the course of review of the new arrangement two minor Note Holders confirmed their intention to convert up to 50% of their Notes.

The group is negotiating a new funding facility with the NAB. The current facility has been extended to 30 November 2010, pending the completion of negotiations.

Since balance date changes have occurred in the contractual arrangements. The Company has entered into a major new contract with Xerox in the US for the financial years 2010-11 to 2012-13, which will commence in September 2010. The Company was notified by Ricoh in August 2009 that it is not renewing its contract, and is engaging another company to process its collected cartridges. This decision remains unresolved, and the company continues to receive Ricoh cartridges. Expectations are that the decision will be implemented late in 2010 with a potential loss of revenue of \$350,000 per annum.

In August 2009, CtL Inc began receiving cartridges from Staples under new contract terms, the effect of which was to triple the number of cartridges being delivered to our Hebron facility. This contract was expanded and renewed for two years in April 2010.

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

**NOTE 28: COMPANY DETAILS**

The registered office and principal place of business of the company is:

Close the Loop Ltd  
208 Hume Highway  
SOMERTON VIC 3062