

CleanTeQ Holdings Limited

ABN 34 127 457 916

Annual Report - 30 June 2014

CleanTeQ Holdings Limited

Contents

30 June 2014

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CleanTeQ Holdings Limited
Corporate directory
30 June 2014

Directors	Sam Riggall (Chairman and Non-Executive Director) Peter Voigt (Executive Director) Roger Harley (Independent Non-Executive Director) Ian Knight (Independent Non-Executive Director)
Company secretary	Melanie Leydin
Registered office	296 Ferntree Gully Road Notting Hill Victoria 3168 Australia Ph: +61 3 9797 6700 Fax: +61 3 9706 8344
Principal place of business	296 Ferntree Gully Road Notting Hill Victoria 3168 Australia
Share register	Computershare Investor Services Pty Limited Yarra Falls, 452 Johnson Street Abbotsford, Victoria 3067 Ph: + 61 (03) 9415 5000 Fax: +61 (03) 9473 2500
Auditor	KPMG 147 Collins Street Melbourne, Victoria 3000
Solicitors	Minter Ellison Level 23 South, Rialto Towers 525 Collins Street Melbourne, Victoria 3000
Bankers	BankWest 6th Floor, Bourke Place 600 Bourke Street Melbourne, Victoria 3000
Stock exchange listing	CleanTeQ Holdings Limited shares are listed on the Australian Securities Exchange (ASX code: CLQ)
Website	www.cleanteq.com

CleanTeQ Holdings Limited
Directors' report
30 June 2014

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of CleanTeQ Holdings Limited (referred to hereafter as the 'parent entity', 'the Company' or 'Clean TeQ') and the entities it controlled, and interests in associates for the year ended 30 June 2014, and the auditor's report thereon.

Directors

The following persons were directors of CleanTeQ Holdings Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Sam Riggall (Chairman and Non-Executive Director)

Peter Voigt (Executive Director)

Greg Toll (Executive Director, resigned as Chairman on 4 June 2013 and retired as a Director on 21 November 2013)

Roger Harley (Independent Non-Executive Director)

Ian Knight (Independent Non-Executive Director, appointed 17 July 2013)

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of:

- Providing air purification and odour elimination solutions to customers;
- The continued development and use of the Clean-iX® and proprietary CIF™ Technologies in conjunction with other technologies, which can be used for the purification and recycling of waste water and for desalination of brackish water to produce high quality industrial water; and
- The continued development and use of the Clean-iX® Technology which can be used to extract a range of resources in the mining industry including base metals, precious metals and radioactive elements.

There have been no other significant changes in the nature of the consolidated entity's activities during the financial year.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$4,910,000 (30 June 2013: \$4,631,000).

Overview of the consolidated entity

A fall in revenue levels in the consolidated entity's Air division, coupled with continued delays in securing revenue-producing opportunities in the Water and Resource Recovery divisions and the ongoing fixed cost base, has unfortunately resulted in a significant operating loss for Clean TeQ in the 2014 financial year.

The Air division's revenues fell significantly, due mainly to a slowdown in project commitments in the Australian waste water processing sector. The consolidated entity noted that Government Water Authorities, the main client group for the Air division's services, deferred commitments to projects in the lead up to the 2013 Federal election, resulting in a sustained period where the industry as a whole deferred the awarding of tenders to service providers. This, coupled with strong price competition from other industry participants, led to our revenue decline. Fortunately, market conditions improved late in the financial year, with the Air division being awarded a number of significant projects, however this was too late to enable the recognition in the year ended 30 June 2014 of significant revenues from those projects.

On a positive note, improvements to the Air division's cost control and delivery model, which commenced during FY2013, resulted in a significant improvement in the profitability in that division.

The Water division continued preparatory work in its capacity as preferred tenderer for a significant Asian mining water project however, due to factors outside the consolidated entity's control, commencement of this project has been delayed beyond 30 June 2014. As a consequence, the Water Division has had only limited commercial activity in the current year. Nevertheless, it has continued to carry out significant and valuable research and development activities which we expect to provide ongoing benefits and value in future periods. The acquisition by the consolidated entity of full ownership in Associated Water Pty Ltd, previously 50%-owned, enhanced the entity's opportunities to provide water treatment solutions to the coal seam gas mining sector. The Water division is currently investigating a number of opportunities to provide its water treatment technology in the mining and water treatment areas.

Review of operations (continued)

Overview of the consolidated entity (continued)

The Resource Recovery division made a significant breakthrough during the year with our partner Ishihara Sangyo Kaisha Ltd (ISK). Using our technology for primary extraction and concentration, test work was able to achieve 99.9% purity of Scandium from the waste product Titanium Dioxide. This led to the order of a scandium extraction pilot plant by ISK. The Resource Recovery division is currently completing this plant and will deliver it to ISK by September 2014. Successful trialling of the pilot plant is hoped to lead to an ongoing commercial relationship with ISK for scandium recovery.

During the year an option was available for the purchase of a copper mine in Leigh Creek. Our resource recovery technology was successful in the extraction of copper from the tailings, but the decision was made not to proceed with the project after the quantities of copper available were lower than anticipated.

High level discussions with Ivanhoe Mines are progressing with a view to evaluating our Resource Recovery technology for metal recovery from tailings dams and other sources.

Administratively, the consolidated group relocated to new premises at Notting Hill, in the south eastern suburbs of Melbourne. Our new premises include a state of the art research facility, which will benefit our ongoing research and development activities.

Financial review of operations

During the financial year the consolidated entity's revenues decreased from \$10.4 million to \$6.1 million, due largely to reduction in work volumes in the Air Division, while revenues in the Water and Resource Recovery divisions remained low.

The consolidated entity recorded losses from continuing operations of \$4.9 million before tax (2013: \$5.98 million loss), with the decrease in loss due mainly to an impairment in the financial year ended 30 June 2013 of \$1million not being present in the current financial year. The current year result was also assisted by a once-off revaluation gain on the consolidated entity's existing investment in Associated Water Pty Ltd (AW), which was recognised in January 2014 when it took full control of AW.

The Air division's revenues fell by 46% from \$8.9m to \$4.8m, due to the significant fall in tenders being awarded in the market place, as well as strong price competition from other market participants. However the Air division profitability improved over the previous financial year. Staff numbers and operating expenditure in this division were reduced in line with the falls in revenue.

The revenue in the Water Purification and Resource Recovery Divisions was low with the key emphasis in those areas continuing to be on technology development. In the Water Division, the emphasis was on the preliminary works for a major Asia-based project for which Clean TeQ Limited is the preferred tenderer; whilst the Resource Recovery Division concentrated on the extraction and purification of scandium, leading to the sale of a pilot plant later in the financial year.

The relocation of the consolidated entity to new premises during the financial year resulted in write downs of plant and equipment and other assets at the old location, as well as additional relocation costs being incurred.

The focus on development of the applications resulted in approximately \$1.03 million of research and development expenditure being incurred during the year. This expenditure, along with the net cash outflows from operating activities of approximately \$3.2 million, was financed by the issue of \$2.2m of convertible notes and by shares issues totalling approximately \$4.6m. Further details of these matters can be found in the notes to the financial statements accompanying this report. The funds raised enabled the consolidated entity to repay short term borrowings obtained in the previous financial year.

As a result of the above, the consolidated entity's net assets decreased during the period by \$0.115 million to \$11.080 million (30 June 2013: \$11.195 million). Working Capital, being current assets less current liabilities, amounts to a \$0.53 million surplus (30 June 2013: \$0.59 million surplus), with cash reserves increasing from \$1.08 million to \$2.54 million during the period.

Significant changes in the state of affairs

On 29 November 2013 the Company announced the appointment of Mr Cory Williams to the position of Chief Executive Officer (CEO), with the Company's previous CEO, Mr Peter Voigt, to remain an Executive Director focusing on the on-going commercialisation of the Company's technologies.

During the year the consolidated entity acquired Nippon Gas Co Ltd's 50% shareholding in the joint venture company Associated Water Pty Ltd (Associated Water), increasing its holding in Associated Water from 50% to 100% and therefore giving the consolidated entity full ownership of Associated Water. This returned to the consolidated entity full ownership of the coal seam gas water treatment technology it had previously licensed to Associated Water.

At the same time the consolidated entity acquired from Nippon Gas Co Ltd its 85% shareholding in Clean World Japan Limited (CWJ), resulting in the consolidated entity having 100% ownership of CWJ and full control of technologies it had previously licenced to CWJ.

Further details of these acquisitions are set out in note 38 to the financial statements.

During the year the Company successfully undertook a number of debt and equity raising exercises to provide working capital and funding for new initiatives.

In August 2013 the Company issued 17,317,866 unlisted convertible notes, with a conversion price of \$0.10 (10 cents) per share, interest rate of 10% per annum and a maturity date of 1 August 2016 to Mr Robert Friedland. The price of each convertible note was \$0.10 (10 cents), and the issue raised a total of \$1,731,787 before costs. This followed the issue to Mr Friedland in May 2013 of convertible notes which raised proceeds of approximately \$1.8 million.

During October 2013 the Company carried out a share purchase plan which raised approximately \$412,000.

In December 2013, the Company's Chairman, Mr Sam Riggall, was issued 5,000,000 unlisted convertible notes with a conversion price of \$0.10 (10 cents) per share, an interest rate of 10% per annum and a maturity date of 20 November 2015. The issue price was \$0.10 (10 cents) per note and the issue raised \$500,000.

In March and May 2014 the Company undertook a major share placement to professional investors. This raised approximately \$4.6 million before issue costs.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

On 19 August 2014, the Company announced that the consolidated entity and Nippon Gas Co Limited (Nippon Gas) agreed to modify the payment terms relating to the consolidated entity's purchase in January 2014 of Nippon Gas's 50% share of Associated Water Pty Ltd and Nippon Gas's 85% share of Clean World Japan.

The original payment terms were that the consolidated entity would pay Nippon Gas \$1 million in August 2014 and \$1 million in May 2015.

The modified payment terms will result in the consolidated entity paying Nippon Gas \$100,000 in August 2014 and \$2.3 million in September 2015, which includes interest charged at a rate of 11% per annum from the date of acquisition. The financial effects of this transaction will be recognised in the 2015 financial year.

Apart from the matter referred to above, no other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

The consolidated entity will continue to pursue its objectives of advancing the development of its suite of applications for the treatment of water for use with the water and resource sectors, along with continued development of its air filtration applications. This will include further commercial development of the applications that are both currently in use and in development and advancing the market penetration strategies to enable the consolidated entity to fully exploit the potential of its products in the Resource Recovery and Water Purification Divisions.

Likely developments and expected results of operations (continued)

The consolidated entity intends to fund its development through operational revenues from contracts entered into, and through securing additional contracts throughout the year. The consolidated entity will consider both debt and equity funding should the need arise.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

The consolidated entity is not subject to any specific significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of environmental requirements as they apply to the consolidated entity.

Information on directors

Name:	Sam Riggall
Title:	Chairman & Non-Executive Director
Qualifications:	LLB (Hons), B.Comm., MBA
Experience and expertise:	Sam is a graduate in law and commerce from Melbourne University and has an MBA from Melbourne Business School. He was previously Executive Vice President of Business Development and Strategic Planning at Ivanhoe Mines Ltd. Prior to that Sam worked in a variety of roles in Rio Tinto for over a decade covering project generation and evaluation, business development and capital market transactions. Sam was appointed to the Clean TeQ Board and to the position of Chairman on 4 June 2013, and is a member of the Audit Committee and the Nomination and Remuneration Committee.
Other current directorships:	Nil
Former directorships (last 3 years):	Inova Resources Limited (ASX Code: IVA, formerly Ivanhoe Australia Limited, resigned 19 April 2012)
Special responsibilities:	Sam is a member of the Audit Committee, the Nomination and Remuneration Committee and of the Market Disclosure Committee.
Interests in shares:	Nil
Interests in options:	Nil
Interests in rights:	5,000,000 convertible notes
Name:	Peter Voigt
Title:	Executive Director
Qualifications:	Peter has a Bachelor and Masters of Applied Science (Chemistry) from the Royal Melbourne Institute of Technology.
Experience and expertise:	Peter Voigt established CleanTeQ in 1990 and as Executive Director is currently involved in the delivery of strategic initiatives in water and resource recovery sectors. Peter became a Director of the Company in 2007 and has held the positions of Chief Technology Officer from 2007 to 2009 and Chief Executive Officer from 2010 to 2013. Peter is a biochemist, with extensive experience in technology development, commercialisation, partnering and licencing globally. Prior to founding Clean TeQ, Peter held a number of technical management positions with major food companies and universities.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	25,966,731 fully paid ordinary shares
Interests in options:	1,000,000 unlisted options exercisable at \$0.1935 (19.35 cents) per option

Information on directors
(continued)

Name:	Roger Harley
Title:	Independent Non-Executive Director
Qualifications:	Roger has a science degree from the University of Melbourne and is a Fellow of the Australian Institute of Company Directors.
Experience and expertise:	Roger Harley is a founder and principal of independent corporate advisory firm, Fawcner Capital. Previously he worked 11 years for Deutsche Bank, and held positions including Director of Corporate Finance and Director of Equity Capital Markets. His current roles also include Director of People and Parks Foundation and Trustee of the Alfred Deakin Lecture Trust. Roger has had various appointments by the Commonwealth Government that related to the oversight of innovation and venture capital programs and policies. These include membership of the Pooled Development Funds Registration Board, the Industry Research and Development Board and Innovation Australia. His previous Board positions include Director of Medibank Private. He was appointed as a Director on 1 June 2010.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Roger is a member of the Audit Committee and Chair of the Nomination and Remuneration Committee and Market Disclosure Committee.
Interests in shares:	1,754,420 fully paid ordinary shares
Interests in options:	500,000 unlisted options exercisable at \$0.1935 (19.35 cents) per option
Name:	Ian Knight
Title:	Independent Non-Executive Director
Qualifications:	FCA, CPA
Experience and expertise:	Ian is a graduate in Business Studies and is also a fellow of the Institute of Chartered Accountants, a member of the Australian Society of Certified Practicing Accountants, an Associate Fellow of the Australian Institute of Management and a member of the Institute of Company Directors. His experience includes presenting and working with Boards of Public, Private and Private Equity ownership, State and Federal Governments and has extensive experience in strategising and implementing mergers, acquisitions, divestments and capital raising initiatives. Ian was also formerly a Partner of KPMG and was Head of Private Equity for KPMG Corporate Finance. Currently he is an Executive Director of Scancorp (Victoria) Pty Ltd and a partner of nem Australasia Pty Ltd.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Chair of the Audit Committee and member of the Nomination and Remuneration Committee.
Interests in shares:	200,000 fully paid ordinary shares
Interests in options:	None

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Directors' report
30 June 2014

Information on directors
(continued)

Name:	Greg Toll
Title:	Executive Director (up to 21 November 2013)
Qualifications:	Greg has a Bachelor of Science (Veterinary) Degree with First Class Honours from Sydney University and is a Graduate Member of the Australian Institute of Company Directors.
Experience and expertise:	Greg Toll was appointed the Chief Executive Officer of the Company in 2007 and has been with the predecessor Company since 2001. He became a Director of the Company on 10 September 2007. Greg retired as the Chief Executive Officer of the Company with effect from 2 August 2010 and was appointed Executive Chairman on 1 October 2010. On 4 June 2013 Greg resigned as Chairman. Prior to joining Clean TeQ, Greg held senior executive positions in R&D, sales and marketing with Uncle Bens', Masterfoods, Nestle and Lion Nathan. Greg retired from the Clean TeQ Board on 21 November 2013.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Greg was a member of the Market Disclosure Committee
Interests in shares:	12,825,182 fully paid ordinary shares at time of retirement
Interests in options:	1,000,000 unlisted options exercisable at \$0.1935 (19.35 cents) per option at time of retirement. These options lapsed subsequent to Mr Toll's retirement.

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

'Former directorships' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

Company secretary

Melanie Leydin was appointed to the position of Company Secretary and Chief Financial Officer on 7 July 2011, resigning as Chief Financial Officer on 10 January 2013. Melanie is a Chartered Accountant and is a Registered Company Auditor.

She graduated from Swinburne University in 1997, became a Chartered Accountant in 1999 and since February 2000 has been the principal of chartered accounting firm, Leydin Freyer.

Her practice audits listed and unlisted public companies involved in the resources and biotechnology industries. Her practice also provides outsourced company secretarial and accounting services to public companies in the resources sector. This includes preparation of statutory financial statements, annual reports, half year reports, stock exchange announcements and quarterly ASX reporting and other statutory requirements.

Melanie has over 22 years' experience in the accounting profession and is a director and/or company secretary for a number of oil and gas, junior resources and exploration entities on the Australian Stock Exchange.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2014, and the number of meetings attended by each director were:

	Full Board		Audit Committee		Nomination and Remuneration Committee	
	Attended	Held	Attended	Held	Attended	Held
Sam Riggall	8	8	5	5	2	2
Peter Voigt	8	8	-	-	-	-
Roger Harley	8	8	5	5	2	2
Ian Knight	8	8	5	5	1	1
Greg Toll	3	3	-	-	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee

No meetings of the Market Disclosure Committee were held during the year.

Remuneration Report (audited)

The remuneration report, which has been audited, outlines the director and executive remuneration arrangements for the consolidated entity and the Company, in accordance with the requirements of the Corporations Act 2001 and its Regulations. Remuneration is referred to as compensation throughout the Remuneration Report.

The Remuneration Report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration
- B. Details of remuneration
- C. Service agreements
- D. Share-based compensation
- E. Additional information
- F. Additional disclosures relating to key management personnel

A. Principles used to determine the nature and amount of remuneration (audited)

The Board of Directors are responsible for approving the compensation arrangements for the Directors and senior executives following recommendations received from the Remuneration and Nomination Committee. The Board in conjunction with the Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the consolidated entity. Key management personnel as identified for the purposes of this report by the criteria set out are as follows: -

- Sam Riggall - Chairman and Non-Executive Director
- Cory Williams - Chief Executive Officer
- Peter Voigt - Executive Director
- Roger Harley - Independent Non-Executive Director
- Ian Knight - Independent Non-Executive Director
- Greg Toll - Executive Director
- Tony Panther - Chief Financial Officer
- Melanie Leydin - Company Secretary

There were no other employees in the consolidated entity that met the definition of an executive or key management personnel in accordance with the Corporations Act 2001 or the Australian Accounting Standards.

Compensation levels for key management personnel and the Company Secretary are competitively set to attract and retain appropriately qualified and experienced directors and executives. As and when required the Nomination and Remuneration Committee has access to independent advice on the appropriateness of compensation packages given trends in comparative companies and the objectives of the compensation strategy. Independent advice was not sought during the 2014 or 2013 financial years.

The compensation structures explained below are designed to attract and retain suitably qualified candidates, reward the achievement of strategic objectives, and create the broader outcome of creating value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the relevant segments' performance;
- the consolidated entity's performance including:
 - the consolidated entity's earnings;
 - the growth in share price and delivering constant returns on shareholder wealth; and
 - the amount of incentives within each key management person's compensation.

The directors and executives remuneration and incentive policies and practices are performance based and aligned to the consolidated entity's vision, values and overall business objectives. They are designed to motivate key management personnel to pursue the consolidated entity's long term growth and success.

Compensation packages include a mix of fixed and variable compensation and short and long-term performance-based incentives.

In addition to their salaries, the consolidated entity also provides non-cash benefits to its key management personnel, and contributes to post-employment superannuation plans on their behalf.

Fixed remuneration

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as leave entitlements and employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Nomination and Remuneration Committee through a process that considers individual, segment and overall performance of the consolidated entity. An executive's compensation is also reviewed on promotion.

Performance-linked remuneration

Performance-linked compensation includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive ("STI") is an "at risk" bonus provided in the form of cash and bonus shares, while the long-term incentive ("LTI") is provided as options over ordinary shares of the Company under the rules of the Employee Share Option Plan. The plans provide for Board discretion on the provision of bonuses and options. During the current year the Board exercised its discretion and authorised the issue of options to selected key management personnel but did not award bonuses.

Refer to section E of this remuneration report for an analysis of the consolidated entity's recent performance and link to overall remuneration.

Short-term incentive bonus

Each year the Nomination and Remuneration Committee sets the key performance indicators ("KPI's") for the key management personnel. The KPI's generally include measures relating to the consolidated entity, the relevant segment and the individual, and include financial, staff management, safety, customer and strategy and risk measures. The measures are chosen as they directly align the individual's reward to the KPI's of the consolidated entity and to its strategy and performance.

The financial performance objectives are earnings compared to budgeted amounts and "share price growth" compared to the closing price at 30 June in the corresponding previous period. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, safety and environmental performance, customer satisfaction and staff development. Financial and non-financial objectives each account for up to 50 percent of the maximum STI.

At the end of the financial year, the Nomination and Remuneration Committee assesses the actual performance of the consolidated entity, the relevant segment and individual against the KPI's set at the beginning of the financial year. A percentage of the pre-determined maximum amount is awarded depending on results. No bonus is awarded where performance falls below the minimum. A bonus is paid based on this predetermined performance. There were no bonuses or incentives paid during the 2014 and 2013 financial years.

Long-term incentive

Options are issued under the Employee Share Option Plan and it provides for key management personnel to receive, for no consideration, options over ordinary shares at specified exercise prices as determined by the Board. The ability to exercise the options is conditional upon each employee serving minimum service periods.

The Employee Share Option Plan ("the Plan") which was adopted on 24 September 2007 states that the total number of options on issue must not exceed 10% of the total number of issued shares in the Company. The Nomination and Remuneration Committee in conjunction with the Board determine the number of options and the terms and conditions associated with those options that are to be issued to key management personnel and employees each year. The criteria used to assess the number of options issued include consolidated entity performance, individual performance and an industry analysis of best practice. The method of assessment was chosen as it provides the Nomination and Remuneration Committee with an objective means of measuring performance against expected performance.

The Company has adopted an Employee Tax Exempt Share Plan ("the Share Plan") which allows eligible employees of the consolidated entity the opportunity to become shareholders of the Company without having to pay any amount for the acquisition of the Shares. Each eligible employee is entitled to acquire the equivalent of \$1,000 of shares per annum. These shares are required to be held in escrow for a three year period or until such time as eligible employees terminate their employment with the consolidated entity. Shares were issued to eligible employees during the year ended 30 June 2014 pursuant to the Share Plan, although none were issued to key management personnel.

Short-term and long-term incentive structure

The Nomination and Remuneration Committee considers that the above performance-linked compensation structure will generate the desired outcome.

In the current year the consolidated entity has not achieved its forecast earnings targets, with most segments not meeting budgeted results. The level of performance achieved during the current year has resulted in the minimum short-term incentives not being achieved, which has led to no short term incentives being paid to the key management personnel.

Non-Executive Directors

The Constitution provides that the Non-Executive Directors may be paid or provided remuneration for their services the total amount or value of which must not exceed an aggregate maximum of \$500,000 per annum or such other maximum amount determined from time to time by the Company in a general meeting. The aggregate maximum sum will be apportioned among them in such manner as the Directors in their absolute discretion determine. Non-Executive Directors fees are set based on advice from external advisors with reference to fees paid to other Non-Executive Directors of comparable companies.

Non-Executive Directors do not receive performance related remuneration. Directors' fees cover all main Board and Committee activities.

A Non-Executive Director is entitled to be paid travelling and other expenses properly incurred by them in attending Directors' or general meetings of the Company or otherwise in connection with the business of the consolidated entity.

No retirement benefits are to be paid to Non-Executive Directors.

The Company determines the maximum amount for remuneration, including thresholds for share-based remuneration, for Directors by resolution.

Other benefits

Key management personnel can receive non-cash benefits as part of their base compensation as part of the terms and conditions of their appointment. Non-cash benefits typically include motor vehicles and toll road payments. The Company pays fringe benefits tax on these benefits.

Voting and comments made at the Company's 21 November 2013 Annual General Meeting ('AGM')

The Company received 97.6% of 'for' votes in relation to its remuneration report for the year ended 30 June 2013. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

B. Details of remuneration (audited)

Amounts of remuneration

Details of the nature and amount of each major element of remuneration of the key management personnel of the consolidated entity are set out in the following tables.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Long service leave \$	Equity-settled \$	
2014							
<i>Non-Executive Directors:</i>							
Sam Riggall	127,300	-	10,000	12,700	-	-	150,000
Roger Harley	45,872	-	-	4,243	-	-	50,115
Ian Knight *	50,000	-	-	-	-	-	50,000
<i>Executive Directors:</i>							
Peter Voigt****	187,000	-	13,000	18,500	3,666	-	222,166
Greg Toll **	81,333	-	8,250	8,286	-	-	97,869
<i>Other Key Management Personnel:</i>							
Cory Williams***	229,552	-	-	21,234	4,570	156,952	412,308
Tony Panther	165,657	-	9,343	16,188	3,185	-	194,373
Melanie Leydin	96,000	-	-	-	-	-	96,000
	<u>982,714</u>	<u>-</u>	<u>40,593</u>	<u>81,151</u>	<u>11,421</u>	<u>156,952</u>	<u>1,272,831</u>

* Ian Knight was appointed as director 17 July 2013.

** Greg Toll retired as a Director on 21 November 2013. His cash salary and fees includes contractual termination payment of \$50,000.

*** Cory Williams was appointed as Chief Executive Officer on 29 November 2013. From 1 July 2013 to 29 November 2013 he held the position of Chief Operating Officer. Share based payments are options granted under the employee share scheme and represented 38% of his total remuneration. See section D.

**** Peter Voigt was the Chief Executive Officer from 1 July 2013 to 29 November 2013.

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	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	Total
2013	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Bob Cleary****	45,835	-	-	-	-	13,250	59,085
Roger Harley****	45,871	-	-	4,128	-	13,250	63,249
<i>Executive Directors:</i>							
Peter Voigt	240,000	-	-	21,600	3,115	27,500	292,215
Greg Toll	150,000	-	-	13,500	-	27,500	191,000
<i>Other Key Management Personnel:</i>							
Melanie Leydin	96,000	-	-	-	-	-	96,000
Tony Panther*	83,686	-	-	7,531	-	-	91,217
	661,392	-	-	46,759	3,115	81,500	792,766

* Tony Panther was appointed as Chief Financial Officer on 10 January 2013 and as a result details of his remuneration are from that date.

** Share based payments include options granted to key management personnel, and shares issued to Greg Toll and Peter Voigt under the employee share scheme. See section D.

*** Sam Riggall was appointed as Chairman on 6 June 2013. He received no remuneration during the period up to 30 June 2013.

**** Options granted to Non-Executive Directors do not have any performance conditions attached.

The fair value of the options is calculated at the date of grant using either the Binomial or Black-Scholes option valuation model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised as an expense in each reporting period. Refer to notes 2 and 46 of the financial statements for further details. The fair value of ordinary shares issued is calculated at the date of grant with reference to the market value.

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The proportions of target remuneration linked to performance and fixed remuneration are as follows :

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2014	2013	2014	2013	2014	2013
<i>Non-Executive Directors:</i>						
Sam Riggall	100%	-%	-%	-%	-%	-%
Roger Harley	100%	100%	-%	-%	-%	-%
Ian Knight	100%	-%	-%	-%	-%	-%
Bob Cleary	-%	100%	-%	-%	-%	-%
<i>Executive Directors:</i>						
Peter Voigt	100%	100%	-%	-%	-%	-%
Greg Toll	100%	100%	-%	-%	-%	-%
<i>Other Key Management Personnel:</i>						
Cory Williams	62%	-%	-%	-%	38%	-%
Tony Panther	100%	100%	-%	-%	-%	-%
Melanie Leydin	100%	100%	-%	-%	-%	-%

For the years ended 30 June 2014 and 30 June 2013 the only at risk Short Term Incentives and Long Term Incentives, other than relevant options issued, were at the discretion of the Board of Directors and were not part of the individuals' remuneration packages.

C. Service agreements (audited)

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: Peter Voigt
Title: Executive Director
Agreement commenced: March 2011, remuneration updated 1 July 2013
Term of agreement: No fixed term
Details: From 1 July 2013 remuneration is set at a base salary of \$200,000 per annum plus superannuation of \$18,500 based on duties as executive director. For the year ended 30 June 2013 remuneration was set at a base salary of \$240,000 per annum plus superannuation of \$21,600. The Company may terminate the agreement upon six months' notice and a termination payment equivalent to 6 months' salary. Mr Voigt can terminate the agreement upon three months' notice. The Company may terminate the agreement immediately where the executive commits any act of serious misconduct, persistent breach or non-observance of a term of this agreement.

Name: Cory Williams
Title: Chief Executive Officer
Agreement commenced: 29 November 2013
Term of agreement: No fixed term
Details: From 29 November 2013 remuneration is set at a base salary of \$250,000 per annum plus superannuation of \$23,750 based on duties as Chief Executive Officer. He was also due 4,000,000 unlisted options exercisable at 10 cents expiring on 30 November 2018. The options have various share price vesting hurdles. Mr Williams' contract can be terminated by the Company with 6 months' notice and a termination payment equivalent to 6 months' salary. Mr Williams can terminate the agreement upon six months' notice. The Company may terminate the agreement immediately where the executive commits any act of serious misconduct, persistent breach or non-observance of a term of this agreement.

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Name:	Tony Panther
Title:	Chief Financial Officer
Agreement commenced:	December 2012
Term of agreement:	No fixed term
Details:	Remuneration set at base salary of \$175,000 per annum plus superannuation based on duties as chief financial officer. The Company may terminate the agreement upon three months' notice and a termination payment equivalent to three months' salary. Mr Panther can terminate the agreement upon three months' notice. The Company may terminate the agreement immediately where the executive commits any act of serious misconduct, persistent breach or non-observance of a term of this agreement.

The service contracts outline the components of compensation paid to the key management personnel. The service contracts of the key management personnel prescribe how compensation levels are modified year to year. Compensation levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the compensation policy.

D. Share-based compensation (audited)

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2014.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grantee/Number of options/Grant date	Vesting date* and exercisable date	Vesting conditions	Expiry date	Exercise price	Fair value per option at grant date
Cory Williams 1,600,000 options 1 December 2013	Vest in financial year when share price exceeds 20 cents	Vest when share price exceeds 20 cents for at least 5 successive trading days	30 November 2018	\$0.10	\$0.041
Cory Williams 800,000 options 1 December 2013	Vest in financial year when share price exceeds 30 cents	Vest when share price exceeds 30 cents for at least 5 successive trading days	30 November 2018	\$0.10	\$0.039
Cory Williams 1,600,000 options 1 December 2013	Vest in financial year when share price exceeds 40 cents	Vest when share price exceeds 40 cents for at least 5 successive trading days	30 November 2018	\$0.10	\$0.037

* - The date(s) upon which these options will vest cannot be determined at the date of this report as the options vest upon the future achievement of specific share price targets and it cannot currently be determined if or when these specific share price targets will be achieved.

Options granted carry no dividend or voting rights.

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The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2014 are set out below:

Name	Number of options granted during the year 2014	Number of options granted during the year 2013	Number of options vested during the year 2014	Number of options vested during the year 2013
Bob Cleary	-	500,000	-	500,000
Roger Harley	-	500,000	-	500,000
Peter Voigt	-	1,000,000	-	1,000,000
Greg Toll	-	1,000,000	-	1,000,000
Cory Williams	4,000,000	-	-	-

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2014 are set out below:

Name	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
Cory Williams	156,952	-	-	38%

* Options vested in prior years and expired in the current year are disclosed in note 46 to the financial statements.

Equity instruments

During the course of the 2008 financial year the Company introduced a share option plan for employees and Directors of Clean TeQ ("the Plan"). All options refer to options over ordinary shares of Clean TeQ Holdings Limited, which are exercisable on a one-for-one basis under the Employee Share Option Plan. The broad details of the Plan are set out below:

(a) Under the Plan, eligible persons will be offered, and if accepted, granted, options entitling the holder to subscribe for Shares. The options may be subject to vesting and exercise restrictions which will be determined by the Board at the time of issue. If a person no longer qualifies for the Plan, they will have three months to exercise any options which are capable of being exercised (except in limited circumstances).

(b) It is intended that the exercise price will generally be at or in excess of the prevailing volume weighted average sale price of Shares traded on ASX in the period immediately prior to the date of offer of the options.

(c) The Board has at its discretion the ability to waive any conditions under certain limited circumstances and/or to allow options to be exercised and Shares acquired or transferred for monetary consideration equivalent to their value. The options are not otherwise transferable once granted.

(d) The determination of eligibility to participate is at the absolute discretion of the Board. The Board may also determine at its absolute discretion the applicable performance criteria to be achieved and the time period in which those criteria must be satisfied. While not limiting the Board's discretion, the performance criteria are generally focused on the key financial and other performance measures set by the Company.

E. Additional information (audited)

In considering the consolidated entity's performance and benefits for shareholder wealth, the current Nomination and Remuneration Committee have regard to the following profit or loss after tax in the current and previous four financial years, along with the share price and movement in the share price.

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The earnings of the consolidated entity for the five years to 30 June 2014 are summarised below:

	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000	2014 \$'000
Profit/(loss) after income tax	1,333	(5,274)	1,248	(4,631)	(4,910)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2010	2011	2012	2013	2014
Share price at financial year end (\$)	0.28	0.04	0.13	0.10	0.05
Movement in share price (\$)	(0.07)	(0.24)	0.09	(0.03)	(0.05)

Net profit after income tax is considered as one of the financial performance targets in setting the short term incentives. Dividends and changes in share price are included in the total shareholder return calculation which is one of the performance criteria assessed for the long term incentives. The other performance criteria assessed for the long term incentives is growth in earnings per share, which again takes into account the consolidated entity's net profit after income tax.

F. Key management personnel transactions (audited)

1. Movement in shares held

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Peter Voigt	25,831,596	-	135,135	-	25,966,731
Greg Toll *	13,070,229	-	202,702	(13,272,931)	-
Roger Harley	1,551,718	-	202,702	-	1,754,420
Ian Knight **	-	-	-	200,000	200,000
Cory Williams	-	-	2,000,000	-	2,000,000
	<u>40,453,543</u>	<u>-</u>	<u>2,540,539</u>	<u>(13,072,931)</u>	<u>29,921,151</u>

* Greg Toll resigned as a director during the year.

** Ian Knight was appointed as a director during the year. He held 200,000 shares at the time of his appointment.

2. Movement in options held

The number of options over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Peter Voigt	1,000,000	-	-	-	1,000,000
Greg Toll *	1,000,000	-	-	(1,000,000)	-
Roger Harley	500,000	-	-	-	500,000
Cory Williams	-	4,000,000	-	-	4,000,000
	<u>2,500,000</u>	<u>4,000,000</u>	<u>-</u>	<u>(1,000,000)</u>	<u>5,500,000</u>

* Greg Toll resigned as a director during the year. His options have lapsed in accordance with the Employee Option Plan rules.

3. Other transactions with key management personnel

Details of other transactions with key management personnel are set out in notes 32 and 36.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of CleanTeQ Holdings Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
30 June 2011	30 June 2015	\$0.25	500,000
30 June 2011	30 June 2016	\$0.40	500,000
1 July 2010	1 July 2015	\$0.34	10,000
15 November 2012	30 November 2015	\$0.19	1,500,000
14 January 2014	30 November 2018	\$0.10	4,000,000
8 May 2014	30 November 2018	\$0.10	2,000,000
			<u>8,510,000</u>

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

For details of options issued to directors and executives as remuneration refer to the remuneration report.

Shares issued on the exercise of options

There were no ordinary shares of CleanTeQ Holdings Limited issued on the exercise of options during the year ended 30 June 2014 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The invoice from the Company's insurers did not specify the amount of the premium paid for insurance against an officer's liability for legal costs.

Indemnity and insurance of auditor

The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to 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 part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 33 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

CleanTeQ Holdings Limited
Directors' report
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The directors are of the opinion that the services as disclosed in note 33 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

Officers of the Company who are former audit partners of KPMG

Ian Knight, appointed as a Non-Executive Director on 17 July 2013, was previously a Partner of KPMG and Head of Private Equity for KPMG Corporate Finance, until June 2012.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Lead auditor's independence declaration

A copy of the lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 19 and forms part of the directors' report for the financial year ended 30 June 2014.

Auditor

KPMG continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Ian Knight
Director

20 August 2014
Melbourne



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Clean TeQ Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 there have been:

- (i) no contraventions of the auditor 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.

KPMG

KPMG

Tony Batsakis
Partner

Melbourne

20 August 2014

CleanTeQ Holdings Limited
Corporate Governance Statement
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The Board of Directors of Clean TeQ Holdings Limited ("The Company") is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

To ensure the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board.

The Directors are focused on fulfilling their responsibilities individually and as a Board to all of the Company stakeholders. This involves the recognition of, and a need to adopt, principles of good corporate governance. The Board supports the guidelines of "The Corporate Governance Principles and Recommendations" established by the ASX Corporate Governance Council.

Given the size and structure of the Company, the nature of its business, the stage of its development and the cost of strict and detailed compliance with all of the recommendations, the Company has adopted some modified systems, procedures and practices which it considers allow it to meet the principles of good corporate governance.

In accordance with the ASX Corporate Governance Council's recommendations, the Corporate Governance Statement must contain specific information, and also report on the Company's adoption of the Council's principles and recommendations on an exception basis, whereby disclosure is required of any recommendations that have not been adopted by the Company, together with the reasons why. The Company's corporate governance principles and policies are therefore structured with reference to the Corporate Governance Council's corporate governance principles and recommendations, which are as follows:

1. Lay solid foundations for management and oversight;
2. Structure the Board to add value;
3. Promote ethical and responsible decision making;
4. Safeguard integrity in financial reporting;
5. Make timely and balanced disclosure;
6. Respect the rights of shareholders;
7. Recognise and manage risk; and
8. Remunerate fairly and responsibly.

1. Lay Solid Foundations for Management and Oversight.

The Board is responsible for the development of:

- strategy;
- oversight of management;
- risk management and compliance systems; and
- monitoring performance.

The Board has adopted a Board Charter the purpose of which is to promote high standards of corporate governance, clarify the role and responsibilities of the Board and enable the Board to provide strategic governance for the Group and effective management oversight. A copy of the Board Charter is available on the Company's website. The Board has established certain policies and protocols in relation to the Company's operations, some of which are summarised in the remainder of this statement.

2. Structure the Board to Add Value.

The current composition of the Board consists of one Executive Director and three Non-Executive Directors. Currently two of the Non-Executive Directors satisfy the test of independence. One of the Directors has a substantial shareholding and is fulfilling an executive role in the Company.

Given the nature and size of the Company, its business interests and the stage of development, the Board is of the view that there is a broad mix of skills required and that given their experience each of the Directors are aware of and capable of acting in an independent manner and in the best interests of the shareholders.

The Chairman of the Board is not an independent Non-Executive Director. The roles of Chairman and Chief Executive Officer are not exercised by the same person. These roles are exercised by Sam Riggall who is the Non-Executive Chairman, whilst Cory Williams is Chief Executive Officer.

To ensure the Board is well equipped to discharge its responsibilities, it has established guidelines for the nomination and selection of directors and for the operation of the Board. Details of the Nomination and Remuneration Committee are provided below.

Each Director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense. The Director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation.

The Nomination and Remuneration Committee, which comprises Roger Harley, Ian Knight and Sam Riggall, oversees the appointment and induction process for Directors and Committee members, and the selection, appointment and succession planning process of the Company's Chief Executive Officer. The Committee makes recommendations to the Board on the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the Committee in consultation with the Board determines the selection criteria based on the skills deemed necessary. The Committee identifies potential candidates. The Board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders.

The terms and conditions of the appointment and retirement of Non-Executive Directors are set out in a letter of appointment, including expectations of attendance and preparation for all Board meetings, minimum hourly commitments, appointments to other Boards, the procedures for dealing with conflicts of interest, and the availability of independent professional advice.

The Nomination and Remuneration Committee also conducts an annual review of the performance of the Chief Executive Officer and the senior executives reporting directly to him and the results are discussed at a Board meeting.

The performance of the Board and executives is reviewed on an annual basis both collectively and individually. The performance criteria takes into account each Director's and Executive's contribution to setting the direction, strategy and financial objectives of the consolidated entity, and monitoring compliance with regulatory requirements and ethical standards. During the course of the current financial year the Nomination and Remuneration Committee has reviewed the performance of all Directors and executives within the consolidated entity. Short term incentives may then be awarded by the Committee in accordance with the level of performance of each executive.

The Committee is responsible for determining and reviewing the remuneration and performance of the Directors and the Executive Officers of the Company and reviewing the operation of the Company's Employee Option and Share Plans. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating, and retaining executives with the skills to manage the Company's operations. Accordingly, the Board has established a Nomination and Remuneration Committee to focus on the performance of the Directors and executives within the organisation. This committee reports directly to the Board of Directors.

The consolidated entity has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit the consolidated entity facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

3. Promote Ethical and Responsible Decision Making.

The Board recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity. Consequently, the Company follows the Code of Conduct established by the Board, which sets out the principles and standards with which all officers and employees are expected to comply in the performance of their respective functions.

The Board has adopted a code of conduct for Directors and Senior Executives which fully complies with the regulation. The purpose of the code of conduct is to:

- articulate the high standards of honesty integrity, ethical and law-abiding behaviour expected of Directors and Senior Executives;
- encourage the observance of those standards to protect and promote the interests of shareholders and other stakeholders (including employees, customers, suppliers and creditors);
- guide Directors and Senior Executives as to the practices thought necessary to maintain confidence in the consolidated entity's integrity;
- set out the responsibility and accountability of Directors and Senior Executives to report and investigate any reported violations of this code or unethical or unlawful behaviour; and
- promote ethical and responsible decision-making by the Company in consideration of the reasonable expectations of its stakeholders, including shareholders, employees, customers, suppliers, creditors, consumers and the broader community in which it operates.

As the Board acts on behalf of and is accountable to the shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

All employees and Directors of Clean TeQ are expected to observe the highest standards of honesty, ethics, integrity and law-abiding behaviour during the course of their employment with the Company.

The standards expected include:

- Compliance with Company policies, procedures and contracts;
- Compliance with all reasonable and legal instructions of management; and
- To be honest and fair in dealings with all stakeholders including clients, colleagues, Company management and the general public.

Specifically, Directors and Senior Executives are expected to:

- Act with integrity in the performance of their duties;
- Maintain client confidentiality;
- Avoid any conflicts of interest both directly and indirectly;
- Exercise proper courtesy, consideration and sensitivity in their dealings with clients and colleagues;

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Corporate Governance Statement
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- Comply with the provisions of relevant legislation and ethical requirements of their profession;
- Respect the Company's ownership of all Company funds, equipment, supplies, records and property;
- Maintain during employment with the Company and after termination of employment, the confidentiality of any information acquired during the course of the employment with Clean TeQ;
- Not make any unauthorized statements to the media about the Company's business;
- Refrain from sexual or other unlawful harassment in the workplace; and
- Observe occupational health and safety rules.

Further details of the Company's Code of Conduct, including the full text of the code, can be found on the Company's website.

The Company has established a formal written Share Trading Policy which is required to be adhered to by all Directors, Senior Management and employees of the Company and its subsidiaries. Trading in the Company's shares and/or options over such shares by Directors and Executives of the Company should only occur in circumstances where the market is considered to be fully informed of the Company's activities. Directors, Executives and staff are required to discuss their intention to trade in the Company's shares with the Chairman of the Company prior to trading. The Board recognises that it is the individual responsibility of each Director and employee to carry this policy through. Furthermore, there is a clear understanding that the only appropriate time to trade is after an announcement to a fully-informed market. Further details of the Company's Share Trading Policy, including a full copy of the policy, is available on the Company's website.

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has developed procedures to assist Directors to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a Director on a Board matter, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered and may not vote on the matter. Details of Director related entity transactions with the Company and the consolidated entity are set out in the notes to the financial statements.

The Company has adopted a Diversity Policy that considers the benefits of diversity, ways to promote a culture of diversity, factors to be taken into account in the selection process of candidates for Board and senior management positions in their Company, education programs to develop skills and experience in preparation for Board and senior management positions, processes to include review measurable diversity performance objectives for the Board, CEO and senior management.

The Diversity Policy states that the Company will report, where appropriate, in each annual report, the measurable objectives for achieving gender diversity set by the Board.

The following table provides a break-up of the gender diversity in the organisation:

	Number	%
Number of women employees in the whole organisation	4	17
Number of women in senior executive positions	1	25
Number of women on the Board	-	-

4. Safeguard Integrity in Financial Reporting.

In accordance with Recommendation 4.1 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the Board has delegated the responsibility for the establishment and maintenance of a framework of internal control mechanisms for the management of the Company to the Audit Committee.

The Company has had regard to the independence and expertise of each of its Directors, the level of the Company's current operations, the costs of compliance and the effectiveness of previous audits when determining the make up of its Audit Committee. The Audit Committee comprises of three Non-Executive Directors. The Company complies with the recommendation in that the majority of the members of the Committee are independent Non-Executive Directors. The Chair of the Audit Committee is a financial professional with significant experience in financial matters. The Chair of the Audit Committee is not the Chairman of the Board.

The Audit Committee members are:

- Ian Knight (Chairman) - Independent Non-Executive
- Roger Harley – Independent Non-Executive
- Sam Riggall – Non-Executive

The Audit Committee intends to meet at least 4 times per annum and is responsible for:

- reviewing the annual and half-year financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards (AASBs), and assessing whether the financial information is adequate for shareholder needs;
- assessing corporate risk assessment processes;
- assessing management processes supporting external reporting;
- establishing procedures for selecting, appointing, and if necessary, removing the external auditor;
- assessing the need for an internal audit function;
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review;
- providing advice to the Board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001;
- assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board;
- monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements; and
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

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The Audit Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit plan, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results;
- review the draft annual and half-year financial report, and recommend Board approval of the financial report; and
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

The external auditors, Chief Executive Officer and Chief Financial Officer are invited to attend Audit Committee meetings at the discretion of the Committee. The external auditor meets with the Audit Committee during the course of the year without management being present.

The Audit Committee operates under a formal charter approved by the Board. The Audit Committee's charter is available on the Company's website along with information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.

The Company does not have a Compliance Committee. The Chairman, Chief Executive Officer and Company Secretary monitor the Company's compliance requirements.

In accordance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the Chief Executive Officer and the Chief Financial Officer declared in writing to the Board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the financial year ended 30 June 2014 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

5. Make Timely and Balanced Disclosure.

The Board and Senior Management are aware of the Continuous Disclosure requirements of the ASX and have procedures in place to disclose any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities.

The Board has established a Market Disclosure Protocol which includes the establishment of a Committee to help the Board to achieve its objective to establish, implement and supervise a continuous disclosure system.

The Market Disclosure Committee consists of:

- Sam Riggall
- Roger Harley

The Market Disclosure Committee did not meet during the year as all disclosure issues were discussed by the Board as a whole.

The Board has appointed the Company Secretary as the Disclosure Officer of the Company. The Company Secretary is responsible for overseeing and coordinating the disclosure of information to the ASX, analysts, stockbrokers, shareholders, the media and the public. The Chief Executive Officer and Chairman are authorised to make statements and representations on the Company's behalf.

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The Board provides shareholders with information using a comprehensive Market Disclosure Protocol which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website, and issuing media releases. More details of the protocol are available on the Company's website.

In summary, the Market Disclosure Protocol operates as follows:

- the Chief Executive Officer, and the Company Secretary are responsible for interpreting the Company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX. Such matters are advised to the ASX on the day they are discovered subject to approval of the Market Disclosure Committee;
- the full annual report is provided via the Company's website to all shareholders (unless a shareholder has specifically requested to receive a physical copy or not to receive the document), including relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments;
- the half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year review financial report is lodged with the ASX, posted on the Company's website and sent to any shareholder who requests it;
- the quarterly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The quarterly financial report is lodged with the ASX;
- proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders;
- all announcements made to the market, and related information (including presentations provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX;
- some media briefings are web-cast, and are placed on the Company's website; and
- the full texts of notices of meetings and associated explanatory material are placed on the Company's website.

All of the above information is made available on the Company's website within one day of public release.

The Company is committed to giving all shareholders comprehensive and equal access to information about our activities and to fulfilling its continuous disclosure requirements to the wider market.

6. Respect the Rights of Shareholders.

The Board aims to ensure that all shareholders are informed of major developments affecting the affairs of the Company. Information is communicated to the shareholders through the annual and half year reports, disclosures made to the ASX, notices of meetings and occasional letters to shareholders where appropriate.

The auditor is invited to attend each Annual General Meeting of the Company and to be available to answer shareholder questions about the conduct of the audit, accounting policies adopted by the Company, the preparation and content of the auditor's report and the independence of the auditor in relation to the conduct of the audit. The Chairman ensures that appropriate time is allocated to the auditor at the Annual General Meeting to answer all shareholder questions relevant to the conduct of the external audit.

7. Recognise and Manage Risk.

The Board oversees the establishment, implementation, and annual review of the Company's Risk Management System. Management has established and implemented the Risk Management System for

CleanTeQ Holdings Limited
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assessing, monitoring and managing all risks, including material business risks, for the consolidated entity.

The Board has procedures in place to recognise, assess and manage risk in accordance with the Corporate Governance Principles and Recommendations. The Board takes a proactive approach to risk management. The Board is responsible for ensuring that risks and also opportunities are identified on a timely basis. All risks identified by the Board are recorded in the Company's risk register and acted upon accordingly. The Company's objectives and activities are aligned with the risks and opportunities identified. The Board believes that it is crucial for all Board members to be a part of this process and as such the Board has not established a separate Risk Management Committee.

The Chief Executive Officer and Chief Financial Officer state to the Board, in writing, that the statement given in accordance with the Corporate Governance Principles and Recommendation regarding the integrity of financial statements is founded on a system of risk management and internal compliance and control that implements the policies adopted by the Board. The statement provided by the Chief Executive Officer and Chief Financial Officer includes a comment that the risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

Management provide the risk profile on a six monthly basis to the Audit Committee that outlines the material business risks to the Company. Risk reporting includes the status of risks through integrated risks management programs aimed at ensuring risks are identified, assessed and appropriately managed. Management review the risk register on a quarterly basis to ensure that all risks are identified, acted upon or being monitored.

The Audit Committee reports the status of material business risks to the Board on a six monthly basis.

Each business operational unit is responsible and accountable for implementing and embedding the risk policy into the operations of its business unit.

Material business risks for the Company may arise from such matters as actions by competitors, government policy changes, economic conditions, the impact of exchange rate movements on the price of raw materials and sales, difficulties in sourcing raw materials, environment, occupational health and safety, property, financial reporting, and the purchase, development and use of information systems.

The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The Board's policy on internal control is comprehensive and comprises the Company's internal compliance and control systems, including:

- *Operating unit controls* – Operating units confirm compliance with financial controls and procedures including information systems controls detailed in procedures manuals;
- *Functional speciality reporting* – Key areas subject to regular reporting to the Board include Environmental, Legal and Insurance matters;
- *Investment appraisal* – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Comprehensive practices have been established to ensure:

- capital expenditure and revenue commitments above a certain size obtain prior board approval;
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- business transactions are properly authorised and executed;
- the quality and integrity of personnel (refer below);
- financial reporting accuracy and compliance with the financial reporting regulatory framework.

Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue with employees and senior management. A formal succession plan is also in place to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur.

Monthly actual results are reported against budgets approved by the Directors and revised forecasts for the year are prepared regularly.

The Company is committed to protecting the environment and safeguarding public and employee health in all aspects of its operations. Environmental protection and safety are the responsibility of the Company, its employees, its alliance partners and suppliers of goods and services. Specifically, the Company will comply with the intent and provision of all applicable laws, regulations and standards.

8. Remunerate Fairly and Responsibly.

It is the Company's objective to provide maximum shareholder benefit from the retention of high quality Board members and Executives. The Nomination and Remuneration Committee ensures that Directors and Senior Executives are remunerated fairly and responsibly. The Nomination and Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Executive Officers and Directors of the Company. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies. Directors and Executives are remunerated with reference to market rates for comparable positions.

The Nomination and Remuneration Committee comprises:

- Roger Harley (Chairman) - Independent Non-Executive
- Ian Knight – Independent Non-Executive
- Sam Riggall – Non-Executive

The Board policy is that the Nomination and Remuneration Committee will comprise of at least three Non- Executive Directors the majority of which are independent. The Nomination and Remuneration Committee comprises of three Non-Executive Directors. The Company complies with the recommendation in that the majority of the members of the Committee are independent Non-Executive Directors. The Chair of the Nomination and Remuneration Committee is not the Chairman of the Board.

The Chief Executive Officer, Cory Williams, is invited to Nomination and Remuneration Committee meetings, as required, to discuss senior executives' performance and remuneration packages but does not attend meetings involving matters pertaining to him.

Executive Directors and senior management's remuneration packages include fixed, performance based and equity based components. Non-Executive Directors only receive a fixed remuneration package which is not linked to the performance of the Company.

Further details of the Nomination and Remuneration Committee's charter and policies, including those for appointing Directors and senior executives, are available on the Company's website.

CleanTeQ Holdings Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2014

		Consolidated	
	Note	2014 \$'000	2013 \$'000
Revenue	5	6,108	10,424
Share of losses of joint ventures accounted for using the equity method	6	(291)	(161)
Other income	7	407	-
Expenses			
Inventory write downs	12	(447)	-
Changes in finished goods		-	140
Raw materials and other direct costs	8	(3,988)	(9,783)
Employee benefits expenses	8	(3,422)	(3,086)
Impairment of capitalised development costs	18	-	(1,000)
Depreciation and amortisation expenses	8	(705)	(568)
Legal and professional expenses		(610)	(701)
Occupancy expenses		(303)	(239)
Marketing expenses		(402)	(271)
Other expenses		(793)	(637)
Finance costs		(464)	(96)
Loss before income tax benefit from continuing operations		(4,910)	(5,978)
Income tax benefit	9	-	765
Loss after income tax benefit from continuing operations		(4,910)	(5,213)
Profit after income tax benefit from discontinued operations		-	582
Loss after income tax expense for the year attributable to the owners of CleanTeQ Holdings Limited		(4,910)	(4,631)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		-	1
Other comprehensive income for the year, net of tax		-	1
Total comprehensive income for the year attributable to the owners of CleanTeQ Holdings Limited		<u>(4,910)</u>	<u>(4,630)</u>
Total comprehensive income for the year is attributable to:			
Continuing operations		(4,910)	(5,212)
Discontinuing operations		-	582
		<u>(4,910)</u>	<u>(4,630)</u>

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

CleanTeQ Holdings Limited
Statement of profit or loss and other comprehensive income (continued)
For the year ended 30 June 2014

	Note	Consolidated 2014	2013
		Cents	Cents
Earnings per share for loss from continuing operations attributable to the owners of CleanTeQ Holdings Limited			
Basic earnings per share	45	(2.95)	(3.63)
Diluted earnings per share	45	(2.95)	(3.63)
Earnings per share for profit from discontinued operations attributable to the owners of CleanTeQ Holdings Limited			
Basic earnings per share	45	-	0.40
Diluted earnings per share	45	-	0.40
Earnings per share for loss attributable to the owners of CleanTeQ Holdings Limited			
Basic earnings per share	45	(2.95)	(3.22)
Diluted earnings per share	45	(2.95)	(3.22)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

CleanTeQ Holdings Limited
Statement of financial position
As at 30 June 2014

	Note	Consolidated 2014 \$'000	2013 \$'000
Assets			
Current assets			
Cash and cash equivalents	10	2,540	1,081
Trade and other receivables	11	788	3,717
Inventories	12	939	1,625
Income tax receivable	13	463	683
Other financial assets	14	27	121
Total current assets		<u>4,757</u>	<u>7,227</u>
Non-current assets			
Investments accounted for using the equity method	15	-	1,884
Other financial assets	16	280	169
Plant and equipment	17	851	372
Intangibles	18	13,511	10,068
Total non-current assets		<u>14,642</u>	<u>12,493</u>
Total assets		<u>19,399</u>	<u>19,720</u>
Liabilities			
Current liabilities			
Trade and other payables	19	2,886	3,799
Borrowings	20	22	1,732
Employee benefits	21	339	259
Other	22	976	848
Total current liabilities		<u>4,223</u>	<u>6,638</u>
Non-current liabilities			
Borrowings	23	4,080	1,858
Employee benefits	25	16	29
Total non-current liabilities		<u>4,096</u>	<u>1,887</u>
Total liabilities		<u>8,319</u>	<u>8,525</u>
Net assets		<u>11,080</u>	<u>11,195</u>
Equity			
Issued capital	26	17,787	13,149
Reserves	27	198	91
Accumulated losses	28	(6,905)	(2,045)
Total equity		<u>11,080</u>	<u>11,195</u>

The above statement of financial position should be read in conjunction with the accompanying notes

CleanTeQ Holdings Limited
Statement of changes in equity
For the year ended 30 June 2014

Consolidated	Contributed equity \$'000	Accumulated losses \$'000	Reserves \$'000	Total equity \$'000
Balance at 1 July 2012	13,151	2,406	190	15,747
Loss after income tax benefit for the year	-	(4,631)	-	(4,631)
Other comprehensive income for the year, net of tax	-	-	1	1
Total comprehensive income for the year	-	(4,631)	1	(4,630)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (note 46)	17	-	80	97
Lapse of options	-	180	(180)	-
Cost of convertible notes	(19)	-	-	(19)
Balance at 30 June 2013	13,149	(2,045)	91	11,195
Consolidated	Contributed equity \$'000	Accumulated losses \$'000	Reserves \$'000	Total equity \$'000
Balance at 1 July 2013	13,149	(2,045)	91	11,195
Loss after income tax benefit for the year	-	(4,910)	-	(4,910)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	(4,910)	-	(4,910)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 26)	4,622	-	-	4,622
Share-based payments (note 46)	16	-	157	173
Lapse of options	-	50	(50)	-
Balance at 30 June 2014	17,787	(6,905)	198	11,080

All amounts are stated net of tax

The above statement of changes in equity should be read in conjunction with the accompanying notes

CleanTeQ Holdings Limited
Statement of cash flows
For the year ended 30 June 2014

		Consolidated	
	Note	2014 \$'000	2013 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		9,849	10,000
Payments to suppliers and employees (inclusive of GST)		(13,151)	(14,140)
Cash used in operating activities		(3,302)	(4,140)
Interest received		51	34
Interest and other finance costs paid		(443)	(90)
Research and development tax incentive received		503	421
Net cash used in operating activities	43	(3,191)	(3,775)
Cash flows from investing activities			
Payments for property, plant and equipment	17	(59)	(47)
Development expenditure	18	(1,028)	(1,517)
Proceeds from sale of business, net of cash disposed		-	1,373
Proceeds from sale of property, plant and equipment		10	-
Cash acquired from acquisition of subsidiaries	38	9	-
Net cash used in investing activities		(1,068)	(191)
Cash flows from financing activities			
Proceeds from issue of shares	26	4,622	-
Proceeds from issue of convertible notes		2,231	1,841
Payment of hire purchases		(19)	(29)
Proceeds from borrowings		-	1,700
Cash on deposit for security over bank guarantees		(17)	(98)
Repayment of borrowings		(1,099)	-
Net cash from financing activities		5,718	3,414
Net increase/(decrease) in cash and cash equivalents		1,459	(552)
Cash and cash equivalents at the beginning of the financial year		1,081	1,633
Cash and cash equivalents at the end of the financial year	10	2,540	1,081

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

The financial statements cover CleanTeQ Holdings Limited as a consolidated entity consisting of CleanTeQ Holdings Limited ("the Company") and its subsidiaries. The financial statements are presented in Australian dollars, which is CleanTeQ Holdings Limited's functional and presentation currency.

CleanTeQ Holdings Limited is a for-profit listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

296 Ferntree Gully Road
Notting Hill
Victoria Australia 3168

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 20 August 2014. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Change in accounting policies

The consolidated entity has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013.

Presentation of transactions recognised in the other comprehensive income

The consolidated entity applied amendments to AASB 101 Presentation of Financial Statements outlined in AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income. The change in accounting policy only relates to disclosures and has had no impact on net income. The changes have been applied retrospectively and require the consolidated entity to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. These changes are included in the statement of profit or loss and other comprehensive income and were adopted in the 2013 financial year.

Employee benefits

In the current year, the consolidated entity adopted AASB 119 Employee benefits (2011), which revised the definition of short-term employee benefits to benefits that are expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. As a result of the change, the annual leave liability for certain of the consolidated entity's employees is now considered to be another long-term employee benefit, when previously it was a short-term benefit. The consolidated entity's obligation is determined as the amount of future benefit that employees have earned in return for their service in the current and prior periods, applying actuarial assumptions, discounted to determine its present value. Re-measurements are recognised in the statement of profit or loss and other comprehensive income in the period in which they arise. The consolidated entity has applied the new policy retrospectively in accordance with the transitional provision of the standard. The impact on the comparative figures and opening statement of financial position of the earliest comparative period presented (1 July 2013) is not material.

Fair value measurement

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other AASBs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other AASBs. As a result, the consolidated entity has included additional disclosures in this regard.

Note 2. Significant accounting policies (continued)

(a) Change in accounting policies (continued)

Fair value measurement (continued)

In accordance with the transitional provisions of AASB 13, the consolidated entity has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurement of the consolidated entity's assets and liabilities.

Subsidiaries and joint arrangements

The consolidated entity has also applied AASB10 Consolidated Financial Statements and AASB11 Joint Arrangements which have not impacted on the entities that the consolidated entity either consolidates or equity accounts.

(b) Going concern

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

The consolidated entity reported a net loss after tax from continuing operations for the financial year of \$4,910,000 (2013: \$4,631,000 loss). The net loss is due generally to a reduction in market activity in the consolidated entity's Air division and a consequential fall in revenue. Operational revenues were more than offset by fixed overhead costs.

Working capital, being current assets less current liabilities, amounts to a \$0.53 million surplus (30 June 2013: \$0.59 million surplus), with cash reserves increasing from \$1.08 million to \$2.54 million during the period. Net cash outflows from operating activities were \$3,191,000 for the year (2013: \$3,775,000).

During the year and subsequent to 30 June 2014 the following events have taken place to support the going concern basis of preparation for the consolidated entity:

- late in the financial year, the consolidated entity has been awarded contracts and agreed projects with revenue in excess of \$4.5 million expected to be delivered in the 2015 and early 2016 financial years and has further trading and tender opportunities which are expected to lead to significant future revenue;
- during the year, the consolidated entity raised in excess of \$4.6 million in capital raisings and \$2.2m in issues of convertible notes, indicating strong support from investors to invest in the consolidated entity and its technologies;
- The consolidated entity expects that the relationship with its major investors will assist in widening the consolidated entity's opportunities for profitable commercialisation of its technologies in addition to assisting in securing any further funding required;
- as set out in the financial statements, during the year the consolidated entity undertook the acquisition of the remaining 50% interest in Associated Water Pty Ltd and the remaining 85% interest in Clean World Japan Ltd, which will enhance the consolidated entity's ability to commercialise its coal seam gas and scandium recovery technologies;
- the consolidated entity continues to negotiate with prospective customers and business partners with a view to securing lucrative transactions based on the consolidated entity's technologies, which along with a continued strong focus on cost control, is expected to improve the consolidated entity's financial performance in future years.
- The directors are confident that the consolidated entity can access debt and equity funding to meet short term working capital requirements, and has a history of securing such funding as required in the past to support their confidence.

On the basis that sufficient funding is expected to be raised to meet the consolidated entity's expenditure forecasts, the directors consider that the consolidated entity remains a going concern and these financial statements have been prepared on this basis.

Whilst the directors are confident in the consolidated entity's ability to continue as a going concern, in the event the agreements and commercial opportunities described above do not eventuate as planned, including continued access to debt and equity funding which at the date of this report are uncertain, there is a material uncertainty as to whether the consolidated entity will be able to generate sufficient net operating cash inflows or execute alternative funding arrangements to enable it to continue as a going concern.

Note 2. Significant accounting policies (continued)

(b) Going concern (continued)

Consequently, material uncertainty exists as to whether the consolidated entity will continue as a going concern and it may therefore be required to realise assets at amounts different to their carrying amounts in the statement of financial position, extinguish liabilities at amounts different to those recorded in the statement of financial position and settle liabilities other than in the ordinary course of business.

(c) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards ("AASBs") and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention as described in the accounting policies.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(d) Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 37.

(e) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of CleanTeQ Holdings Limited ('Company' or 'parent entity') as at 30 June 2014 and the results of all subsidiaries for the year then ended. CleanTeQ Holdings Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Note 2. Significant accounting policies (continued)

(e) Principles of consolidation (continued)

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Transactions eliminated on consolidation

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the consolidated entity's interest in the investee. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Loss of control

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Associates

Associates are entities over which the consolidated entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

The consolidated financial statements include the consolidated entity's share of profit or loss and other comprehensive income of equity accounted interests, after adjustments to align the accounting policies with those of the consolidated entity, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the consolidated entity's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the consolidated entity has an obligation or has made payments on behalf of the investee.

Note 2. Significant accounting policies (continued)

(e) Principles of consolidation (continued)

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in joint ventures are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities reduce the carrying amount of the investment.

(f) Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

(g) Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods and services

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be reliably measured, then the discount is recognised as a reduction of revenue as the sales are recognised.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of units developed and built, transfer usually occurs when the product is received at the customer's site and or is commissioned ready for use.

Rendering of services

Revenue from contracted services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to the completion of key milestones in the contracts.

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. Contract expenses are recognised as they are incurred unless they create an asset related to future contract activity. An expected loss on a contract is recognised immediately in profit or loss.

Technology licensing income

Technology licensing income is recognised based on the substance of the contractual arrangements entered into. Upfront non-refundable fees for the right to utilise the technology, where the economic entity has no ongoing contractual and performance obligations, are recognised fully in profit or loss at the time the contractual commitment is entered into. Technology licensing fees where the licensee has the right to use the technology over a specified period of time or on a refundable basis is recognised in profit or loss on a straight line basis over the agreed term of the Licence.

Sales of non-current assets

Gains or losses on sale of non-current assets are included as income or expenses at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

Gains or losses on disposal are calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Note 2. Significant accounting policies (continued)

(g) Revenue recognition (continued)

Government grants

Government grants are recognised initially as deferred income at fair value and when there is reasonable assurance that they will be received and that the consolidated entity will comply with the conditions associated with the grant, they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the consolidated entity for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

(h) Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in the profit or loss except to the extent that it relates to business combinations, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the consolidated entity is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The consolidated entity makes this assessment at each reporting date.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

CleanTeQ Holdings Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Note 2. Significant accounting policies (continued)

(i) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in the normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in the normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(k) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

(l) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Work in progress is measured, for each project in progress, as the excess of revenue recognised for the project, based on the project's percentage of completion, over the revenue invoiced to date for that project. For projects where the revenue recognised for a project is less than the revenue invoiced to date for that project, the excess of revenue invoiced over revenue recognised is recorded as a current liability, presented as deferred revenue.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the consolidated entity. Ongoing repairs and maintenance are expensed as incurred.

Note 2. Significant accounting policies (continued)

(m) Property, plant and equipment (continued)

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated on to write off the net cost of each item of plant and equipment (excluding land) over their expected useful lives. Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the consolidated entity will obtain ownership by the end of the lease term. The estimated useful lives of property, plant and equipment are as follows for the current and preceding financial year:

Plant and factory equipment	2.5 to 20 years (straight line and diminishing value)
Office furniture and equipment	2.5 to 20 years (straight line and diminishing value)
Capitalised leased equipment	3-7 years (diminishing value)
Motor vehicles	5-6 years (diminishing value)

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

(n) Other financial assets

Cash on deposit used as security for bank guarantees that matures within four and twelve months of each reporting period is disclosed as a current other financial asset. Those deposits that do not mature for in excess of twelve months are disclosed as non-current other financial assets.

(o) Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method of determining useful lives and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Otherwise they are recognised in the profit or loss as incurred. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being between 4 and 20 years dependent on the project.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being between 4 and 20 years.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Note 2. Significant accounting policies (continued)

(p) Impairment of non-financial assets

At each reporting date, the consolidated entity reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(q) Leases

Determining whether an arrangement contains a lease

At inception of an arrangement, the consolidated entity determines whether such an arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the consolidated entity separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the consolidated entity concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the consolidated entity's incremental borrowing rate.

Leased assets

Assets held by the consolidated entity under leases that transfer to the consolidated entity substantially all the risks and rewards of ownership are classified as finance leases. The leased asset is measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the consolidated entity's statement of financial position.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 2. Significant accounting policies (continued)

(s) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Compound financial instruments issued by the consolidated entity comprise convertible notes that can be converted to share capital at the option of the holder, when the number of shares to be issued is fixed.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest related to the financial liability is recognised in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

(t) Finance income and costs

The consolidated entity's finance income and finance costs include, as applicable:

- interest income;
- interest expense;
- dividend income;
- the net gain or loss on the disposal of available-for-sale financial assets;
- the net gain or loss on financial assets at fair value through profit or loss;
- the foreign currency gain or loss on financial assets and financial liabilities;
- the fair value loss on contingent consideration classified as a financial liability;
- impairment losses recognised on financial assets (other than trade receivables);
- the net gain or loss on hedging instruments that are recognised in profit or loss; and
- the reclassification of net gains previously recognised in other comprehensive income.

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Interest expense is recognised using the effective interest method.

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

- interest on short-term and long-term borrowings
- interest on hire purchases

(u) Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Note 2. Significant accounting policies (continued)

(u) Employee benefits (continued)

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees. There were no cash settled share-based payments during the year.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining grant date fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

Note 2. Significant accounting policies (continued)

(u) Employee benefits (continued)

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

(v) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(w) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(x) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of CleanTeQ Holdings Limited by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(y) Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Note 2. Significant accounting policies (continued)

(y) Goods and Services Tax ('GST') and other similar taxes (continued)

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

(z) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 2. Significant accounting policies (continued)

(aa) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the consolidated entity are set out below. The consolidated entity does not plan to adopt these standards early and does not believe that their adoption will have a material effect on its financial statements.

- (a) AASB 9 *Financial Instruments* (2013), AASB 9 *Financial Instruments* (2010) and AASB 9 *Financial Instruments* (2009) (together AASB 9)

AASB 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets.

AASB 9 (2013) introduces new requirements for hedge accounting.

AASB 9 is effective for annual periods beginning on or after 1 January 2018. The effective date is subject to review pending the finalisation of the outstanding phases of the standard. However, early adoption is permitted. The adoption of these standards may have an impact on the consolidated entity's financial assets, but no impact on the consolidated entity's financial liabilities.

- (b) AASB 2014-1 *Amendments to Australian Accounting Standards – Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles*

AASB 2014-1 makes a number of non-urgent but necessary amendments to a number of existing standards.

- (c) AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments – Part B: Materiality*

Guidance on materiality removed from AASB 1031 and cross references inserted in other standards and the Framework for the Preparation and Presentation of Financial Statements where the guidance on materiality is located.

- (d) AASB 2014-1 *Amendments to Australian Accounting Standards – Part C: Materiality*

Amendments to particular Australian Accounting Standards to delete references to AASB 1031.

- (e) AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*

Removes extra disclosure requirements with regard to the measurement of the recoverable amount of impaired assets. Introduced by AASB 13.

- (f) AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting*

Makes amendments to AASB 139 to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.

- (g) AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Liabilities*

Amendments to AASB 132 clarify when an entity has a legally enforceable right to set-off financial assets and financial liabilities permitting entities to present balances net on the balance sheet

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Intangible assets

The recoverable value of patents and trademarks acquired is based on the cost of registering the patents and trademarks, less any diminution in value through amortisation and impairment. The recoverable value of Development intangible assets is based on discounted cash flows expected to be derived from the use and eventual sale of the assets. At each reporting date the directors and management undertake an impairment review to determine their value in use as derived from the discounted cash flow modelling. The impairment review carried out as at 30 June 2014 did not reveal any impairment. Based on the impairment review at 30 June 2014 the directors determined an impairment of the intangible assets of \$nil (2013: \$1 million). Details of the review, and the assumptions and estimates used, are contained in note 18.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Investment in equity accounted investments

The investment in the joint venture is assessed for impairment at each reporting date by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the consolidated entity. The joint venture prepares accounts annually and the carrying value of the investment is reviewed with reference to these accounts; the investment was derecognised in the 2014 financial year.

Other non-derivative financial liabilities

Other non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each financial reporting date. Fair value is calculated based on the present value of the future principal and interest cash flows, discounted at the market rate of interest at the measurement date. In respect of the liability component of convertible notes, the market rate of interest is determined with reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note 4. Operating segments

Identification of reportable operating segments

The consolidated entity is organised into 3 operating segments: Air Purification, Water Purification and Resource Recovery. These operating segments offer different products and services, and are managed separately because they require different technology and marketing strategies. For each segment internal reports are produced for review and use by the CEO, who is the consolidated entity's chief operating decision maker (CODM), in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews gross profit for each operating division. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on at least a monthly basis.

Types of products and services

The principal products and services of each of these operating segments are as follows:

Air Purification	Clean TeQ provides a full suite of air purification and odour elimination solutions to municipal and statutory authorities and industrial companies.
Water Purification	Clean TeQ's suite of water technologies filter, separate and purify polluted waters for drinking, agriculture, recreation or industrial use. Clean TeQ is developing technologies for use in the purification and recycling of waste water and the desalination of brackish water.
Resource Recovery	The Clean-iX® Technology is at the core of this Division and aims to provide cost effective extraction techniques for a range of resources, including base metals, precious metals and radioactive elements (such as uranium).

Information regarding the results of each reportable segment is included below. Performance is measured based on the net result before interest, depreciation and tax, as included in the internal management reports that are reviewed by the consolidated entity's CEO. Each segment's net result before interest, depreciation and tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The information relating to the performance of the identified segments includes revenues and directly attributable costs and materials. The assets attributed to each division relates to revenue generating assets. All other assets and liabilities are not allocated to specific segments.

Geographical segments

Geographically, the consolidated entity operates predominately in Australia.

Major customers

Revenues from three major customers of the Air segment represents approximately \$2.6 million of the consolidated entity's total revenues.

Note 4. Operating segments (continued)

Operating segment information

	Air Purification	Resource Recovery	Water Purification	Intersegment eliminations/ unallocated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated - 2014					
Revenue					
Sales to external customers	4,754	317	217	334	5,622
Interest income	-	-	-	51	51
Other revenue	-	-	48	387	435
Total revenue	<u>4,754</u>	<u>317</u>	<u>265</u>	<u>772</u>	<u>6,108</u>
Reportable segment (loss)/profit before interest, depreciation and tax	1,283	96	192	(5,428)	(3,857)
Depreciation and amortisation	-	-	(63)	(642)	(705)
Finance costs	-	-	-	(464)	(464)
Share of losses from joint venture	-	-	(291)	-	(291)
Gain on revaluation of investment	-	-	407	-	407
Profit/(loss) before income tax expense	<u>1,283</u>	<u>96</u>	<u>245</u>	<u>(6,534)</u>	<u>(4,910)</u>
Income tax expense					-
Loss after income tax expense					<u>(4,910)</u>
Assets					
Segment assets	1,192	4,870	9,632	3,705	19,399
Total assets					<u>19,399</u>
<i>Total assets includes:</i>					
Acquisition of non-current assets (including those acquired in a business combination)	20	168	4,421	59	4,668
Liabilities					
Segment liabilities	386	264	2,753	4,916	8,319
Total liabilities					<u>8,319</u>

Note 4. Operating segments (continued)

	Air Purification	Resource Recovery	Water Purification	Intersegment eliminations/ unallocated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated - 2013					
Revenue					
Sales to external customers	8,902	-	714	462	10,078
Interest income	-	-	-	34	34
Other revenue	-	-	-	312	312
Total revenue	<u>8,902</u>	<u>-</u>	<u>714</u>	<u>808</u>	<u>10,424</u>
Reportable segment (loss)/profit before interest, depreciation and tax	(173)	-	398	(4,378)	(4,153)
Depreciation and amortisation	-	-	-	(568)	(568)
Impairment of assets	(2)	(446)	(552)	-	(1,000)
Finance costs	-	-	-	(96)	(96)
Share of losses from joint venture	-	-	(161)	-	(161)
Profit/(loss) before income tax benefit	<u>(175)</u>	<u>(446)</u>	<u>(315)</u>	<u>(5,042)</u>	<u>(5,978)</u>
Income tax benefit					765
Loss after income tax benefit					<u>(5,213)</u>
Profit before income tax on disposal of discontinued operation*					582
Profit before income tax expense					<u>582</u>
Income tax expense					-
Profit after income tax expense					<u>582</u>
Assets					
Segment assets	3,940	3,764	8,031	3,985	19,720
Total assets					<u>19,720</u>
<i>Total assets includes:</i>					
Investments in associates	-	-	1,884	-	1,884
Acquisition of non-current assets	79	526	912	47	1,564
Liabilities					
Segment liabilities	3,106	-	768	4,651	8,525
Total liabilities					<u>8,525</u>

* - The sale of the discontinued operation, UV Guard Australia Pty Ltd, was effective on 1 July 2012. The discontinued operation formed part of the Water Purification business segment.

Note 5. Revenue

	Consolidated	
	2014	2013
	\$'000	\$'000
<i>Sales revenue</i>		
Contract revenue	5,622	9,886
Government grants	330	23
License fee income	-	169
	<u>5,952</u>	<u>10,078</u>
<i>Other revenue</i>		
Interest	51	34
Other revenue	105	312
	<u>156</u>	<u>346</u>
Revenue	<u>6,108</u>	<u>10,424</u>

Note 6. Share of losses of joint ventures accounted for using the equity method

	Consolidated	
	2014	2013
	\$'000	\$'000
Share of loss - joint ventures	<u>(291)</u>	<u>(161)</u>

See note 40 for details of joint venture operations.

Note 7. Other income

	Consolidated	
	2014	2013
	\$'000	\$'000
Revaluation of investments	<u>407</u>	<u>-</u>

Gain recognised on remeasurement of Clean TeQ Limited's previously-held 50% investment in Associated Water Pty Ltd to fair value at the time at which Clean TeQ Limited acquired the remaining 50% investment. This transaction amounted to a business combination achieved in stages and the gain was recognised in accordance with paragraph 42 of accounting standard AASB 3 Business Combinations. Refer also to note 38.

Note 8. Expenses

	Consolidated	
	2014	2013
	\$'000	\$'000
Loss before income tax from continuing operations includes the following specific expenses:		
<i>Cost of sales</i>		
Cost of sales	3,988	9,643
<i>Depreciation</i>		
Motor vehicles under lease	14	17
Plant & factory equipment	46	47
Office equipment and furniture	46	53
Total depreciation	106	117
<i>Amortisation</i>		
Capitalised development costs	431	374
Other intangible assets	168	77
Total amortisation	599	451
Total depreciation and amortisation	705	568
<i>Employee benefit expenses</i>		
Wages and salaries	3,094	2,869
Employee entitlements expense including movements in provisions for employee entitlements	105	3
Superannuation	295	277
Equity settled share based payments	173	97
Other costs	384	379
Employee benefit expenses capitalised into development assets	(629)	(539)
Total employee benefit expense	3,422	3,086
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	184	156

Note 9. Income tax benefit

	Consolidated	
	2014	2013
	\$'000	\$'000
<i>Income tax benefit</i>		
Current tax	-	(695)
Deferred tax - origination and reversal of temporary differences	-	(70)
Aggregate income tax benefit	-	(765)
Deferred tax included in income tax benefit comprises:		
Decrease in deferred tax liabilities (note 24)	-	(70)
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax benefit from continuing operations	(4,910)	(5,978)
Profit before income tax (expense)/benefit from discontinued operations	-	582
	(4,910)	(5,396)
Tax at the statutory tax rate of 30%	(1,473)	(1,619)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	1	-
Share-based payments	52	29
Non-deductible expenses	-	1
Non-assessable gain on revaluation of investments	(122)	-
Change in recognised deductible temporary difference	682	-
Losses from joint venture	87	-
Tax losses (reinstated) / not brought to account	580	1,003
R&D claim adjustments	163	-
Non-deductible amortisation expense	30	-
Adjustment for capital gain	-	48
Other	-	(227)
Income tax benefit	-	(765)

	Consolidated	
	2014	2013
	\$'000	\$'000
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised, including tax losses arising from a business combination	6,737	3,343
Potential tax benefit @ 30%	2,021	1,003
Plus: Unrecognised benefit of carry forward non-refundable R&D tax offset for which no deferred tax asset has been recognised, arising from a business combination	589	-
Total potential tax benefit of carry forward tax losses and R&D tax offset for which no deferred tax asset has been recognised	2,610	1,003
Temporary differences not brought to account	903	-

The above potential tax benefits for tax losses and R&D tax offset have not been recognised in the statement of financial position. The tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed. The R&D tax offset can only be utilised in the future if sufficient tax liabilities can be generated against which the carry forward R&D tax offset can be credited.

Note 10. Current assets - cash and cash equivalents

	Consolidated	
	2014	2013
	\$'000	\$'000
Cash at bank	2,398	96
Cash on deposit	18	840
Cash on deposit used as security for bank guarantee and credit card facilities - uncommitted	124	145
	<u>2,540</u>	<u>1,081</u>

The effective interest rate on short-term bank deposits at 30 June 2014 was 2.52% (2013: 3.70%). These deposits have a maximum maturity of 90 days of year end. Any balances with maturities exceeding this have been disclosed as other financial assets. Refer to Note 23 for details of the used and unused bank guarantee facility.

Note 11. Current assets - trade and other receivables

	Consolidated	
	2014	2013
	\$'000	\$'000
Trade receivables	613	3,354
Other receivables	175	363
	<u>788</u>	<u>3,717</u>

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$258,000 as at 30 June 2014 (\$415,000 as at 30 June 2013).

The consolidated entity did not consider a credit risk on the aggregate balances after reviewing credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	Consolidated	
	2014	2013
	\$'000	\$'000
31-60 days	165	243
60 -90 days	-	172
90 + days	93	-
	<u>258</u>	<u>415</u>

Normal trading terms are 30 days from month end. Amounts outstanding beyond normal trading terms do not have a history of default and thus management is of the view that no debtors are impaired at 30 June 2014 or 30 June 2013 and thus should not be provided for.

Note 12. Current assets - inventories

	Consolidated	
	2014	2013
	\$'000	\$'000
Raw materials - at net realisable value	58	412
Work in progress - at cost	753	958
Finished goods - at cost	128	255
	<u>939</u>	<u>1,625</u>

Raw materials includes grape skin extract which was initially recognised at a cost of \$598,000 when first acquired pre-2007. At 30 June 2014 the carrying value of grape skin extract is \$10,000 (2013: \$294,000), following a review and write down of this stock during the year of \$284,000 (2013: Nil).

In addition, during 2014 selected finished goods and raw materials inventories were written down by \$127,000 (2013: Nil) and \$36,000 (2013: Nil) respectively to net realisable value.

Note 13. Current assets - income tax receivable

	Consolidated	
	2014	2013
	\$'000	\$'000
Income tax receivable	<u>463</u>	<u>683</u>

Income tax receivable represents the refund due to the consolidated entity on capitalised expenditure during the current financial year as a result of research and development tax concessions.

Note 14. Current assets - other financial assets

	Consolidated	
	2014	2013
	\$'000	\$'000
Cash on deposit used as security for bank guarantees	<u>27</u>	<u>121</u>

Note 15. Non-current assets - investments accounted for using the equity method

	Consolidated	
	2014	2013
	\$'000	\$'000
Investment in joint venture	<u>-</u>	<u>1,884</u>

Refer to note 40 for further information on interests in joint ventures.

This investment was the consolidated entity's 50% investment in the Associated Water joint venture with Nippon Gas Co Ltd, to provide desalination facilities and services in the Australian coal seam gas industry. During January 2014 the consolidated group acquired the Nippon Gas Co Ltd's 50% holding in Associated Water, at which point Associated Water became a wholly-owned subsidiary of the consolidated group. Refer note 38 for more details.

The consolidated entity has recognised its share of after tax losses for the period totalling \$291,000 (2013: \$161,000).

Note 16. Non-current assets - other financial assets

	Consolidated	
	2014	2013
	\$'000	\$'000
Cash on deposit used as security for bank guarantees	280	169

Note 17. Non-current assets - plant and equipment

	Consolidated	
	2014	2013
	\$'000	\$'000
Office furniture and equipment - at cost	194	423
Less: Accumulated depreciation	(100)	(328)
	94	95
Motor vehicles - at cost	154	154
Less: Accumulated depreciation	(89)	(74)
	65	80
Factory equipment - at cost	852	321
Less: Accumulated depreciation	(160)	(124)
	692	197
	851	372

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Plant & factory equipment \$'000	Office furniture & equipment \$'000	Motor Vehicles \$'000	Capitalised lease equipment \$'000	Total \$'000
Balance at 1 July 2012	244	101	85	12	442
Additions	-	47	-	-	47
Transfers in/(out)	-	-	12	(12)	-
Depreciation expense	(47)	(53)	(17)	-	(117)
Balance at 30 June 2013	197	95	80	-	372
Additions	-	59	-	-	59
Additions through business combinations (note 38)	550	17	-	-	567
Disposals	-	(25)	-	-	(25)
Write off of assets	(10)	(6)	-	-	(16)
Depreciation expense	(45)	(46)	(15)	-	(106)
Balance at 30 June 2014	692	94	65	-	851

Note 18. Non-current assets - intangibles

	Consolidated	
	2014	2013
	\$'000	\$'000
Development costs - at cost	18,596	17,568
Less: Accumulated amortisation	<u>(8,637)</u>	<u>(8,206)</u>
	<u>9,959</u>	<u>9,362</u>
Patents and trademarks - at cost	713	712
Less: Accumulated amortisation	<u>(233)</u>	<u>(198)</u>
	<u>480</u>	<u>514</u>
Licenses - at cost	3,135	460
Less: Accumulated amortisation	<u>(63)</u>	<u>(268)</u>
	<u>3,072</u>	<u>192</u>
	<u><u>13,511</u></u>	<u><u>10,068</u></u>

Reconciliation of carrying amount

Reconciliations of the carrying amounts at the beginning and end of the current and previous financial year are set out below:

Consolidated	Capitalised Development costs \$'000	Licence rights \$'000	Patent and trademarks \$'000	Total \$'000
Balance at 1 July 2012	9,219	234	549	10,002
Additions	1,517	-	-	1,517
Impairment of assets	(1,000)	-	-	(1,000)
Amortisation expense	<u>(374)</u>	<u>(42)</u>	<u>(35)</u>	<u>(451)</u>
Balance at 30 June 2013	9,362	192	514	10,068
Additions	1,028	-	-	1,028
Additions through business combinations (note 38)	-	3,014	-	3,014
Amortisation expense	<u>(431)</u>	<u>(134)</u>	<u>(34)</u>	<u>(599)</u>
Balance at 30 June 2014	<u><u>9,959</u></u>	<u><u>3,072</u></u>	<u><u>480</u></u>	<u><u>13,511</u></u>

An expired licence with a carrying value of nil, comprising original cost of \$339,000 and accumulated amortisation of \$339,000, was written off during the year ended 30 June 2014 and the cost and accumulated amortisation amounts were removed from the accounts.

Carrying values of Cash Generating Units (CGUs)	\$'000	\$'000	\$'000	\$'000
<i>As at 30 June 2013</i>				
Water	5,107	96	257	5,460
Resource recovery	4,121	96	257	4,474
Air	134	-	-	134
	<u>9,362</u>	<u>192</u>	<u>514</u>	<u>10,068</u>
<i>As at 30 June 2014</i>				
Water	5,546	3,012	240	8,798
Resource recovery	4,299	61	240	4,600
Air	114	-	-	114
	<u>9,959</u>	<u>3,072</u>	<u>480</u>	<u>13,511</u>

Note 18. Non-current assets – intangibles (continued)

Amortisation

The amortisation of patents and trademarks, licence rights and development costs are allocated to expenses within the statement of profit or loss and other comprehensive income.

Impairment test

Impairment loss was recognised in relation to the Resource Recovery and Water Cash Generating Unit (CGU) in the prior year. The impairment loss was recognised in the statement of profit and loss and other comprehensive income.

Recoverability of development costs

The carrying amount of the consolidated entity's Development intangible assets that are yet to be commercialised is reviewed at each reporting date for potential impairment. We note in the 30 June 2013 financial year, the impairment review was based on the individual development assets capitalised in current and prior periods. Subsequent to the June 2013 financial year, management have revised their approach regarding the impairment review, whereby impairment is now assessed at a CGU level rather than based on individual intangible assets capitalised due to the consolidated entity's technologies being platform technologies where cash flows are inter-dependent. The review consists of a comparison of the carrying value with the expected recoverable amount of the Development intangible assets based on the estimated value in use, which is determined by a discounted cash flow model. As a result of the impairment assessment at 30 June 2014, the directors and management of the consolidated entity identified that the recoverable amount of the Development intangible assets as estimated from the discounted cash flows was not impaired (30 June 2013: impairment of \$1,000,000).

Impairment testing of significant CGUs

The consolidated entity's Development intangible assets are reviewed for impairment at a CGU level using operating segments and individually identifiable projects to develop appropriate discounted cash flow models. The discounted cash flow models take into account a range of factors including:

- the status of an individual project with regard to its stage of project development;
- the extent of any incremental costs expected to be incurred to commercialise the development assets;
- five to ten year (resource sector) forecast revenues from commercialisation of the development assets, including assumptions with respect to market penetration rates, with sales growth dependent upon either the quantum of projects forecast to commence or Australian and global market penetration rates for specific segments which vary from less than 1% increasing to over 5% over the forecast period;
- the risks attached to commercialising the asset, including any industry specific or regulatory risk;
- anticipated levels of competition; and
- other general economic factors.

The discounted cash flows have been prepared using a variety of sourced data such as sales data from Memorandum's of Understanding (MOU's) signed, anticipated sales resulting from discussions with potential customers and other market data to forecast future revenue. As there are no guarantees that new projects will be given regulatory approval where such approval is required or be commercialized within planned timeframes, there is an inherent risk attached to the discounted cash flows that is factored into the key assumptions by way of probability factor adjustments. In generating the forecast cash flows, the consolidated entity has used a post-tax discount rate of 15% (2013: 15%) for all future cash flows for a 5 year period plus a terminal value (Water CGU) and a 10 year period (Resource Recovery CGU). A long term growth rate into perpetuity had been determined based on a terminal growth rate of 2.5% which is considered reasonable given the actual market conditions in Australia and is consistent with the RBA long term growth target range of 2% to 3% and the long term compound annual EBITDA growth rate targeted by management. The most significant identifiable project revenue is identified as commencing in 2015 and an annual growth rate for revenue of 2.5% is estimated.

Note 18. Non-current assets – intangibles (continued)

Management note that reasonably possible changes in key assumptions, include changes to probability factors applied to forecast cash flows, changes in the timing of cash flows and changes to assumed rates of market penetration. The most significant potential changes and their impact are as follows at 30 June 2014:

	Consolidated	
	2014	2013
	\$'000	\$'000
A reduction of 10% in the probability factors applied to forecast cash flows	-	572
A delay of six months in the commencement of forecast cash flows	-	-
A reduction of 25% to the consolidated entity's assumed market penetration rates	-	540
	-	1,112

Management's conclusion is that these changes in key assumptions, while reducing the recoverable amounts of the consolidated entity's technologies, would not, as at 30 June 2014, reduce the recoverable amounts to the extent that the development intangible assets would be impaired.

Note 19. Current liabilities - trade and other payables

	Consolidated	
	2014	2013
	\$'000	\$'000
Trade payables	591	3,449
Deferred consideration payable	2,000	-
Other payables	295	350
	2,886	3,799

Refer to note 30 for further information on financial instruments.

Deferred consideration of \$2,000,000 is payable to Nippon Gas Co Ltd for the acquisition of Associated Water Pty Ltd and Clean World Japan – refer note 38.

Note 20. Current liabilities - borrowings

	Consolidated	
	2014	2013
	\$'000	\$'000
Loans	-	1,700
Hire purchase	22	32
	22	1,732

See note 30 Financial Instruments and note 36 Related party transactions for details of relevant loans.

Note 21. Current liabilities - employee benefits

	Consolidated	
	2014	2013
	\$'000	\$'000
Annual leave	193	144
Long service leave	146	115
	<u>339</u>	<u>259</u>

Note 22. Current liabilities - other

	Consolidated	
	2014	2013
	\$'000	\$'000
Deferred revenue	976	848

The deferred revenue balance at 30 June 2014 consists of \$293,000 (2013: \$118,000) which relates to sales contracts for the supply of air treatment systems and a resource recovery project. Income had been received for projects that were incomplete at the end of the financial year.

Commonwealth government grant money received associated with the Climate Ready project of \$683,000 (2013: \$730,000) has also been recognised as deferred income. This income is being recognised over 17 years, being the estimated useful life of the related asset.

Note 23. Non-current liabilities - borrowings

	Consolidated	
	2014	2013
	\$'000	\$'000
Convertible notes payable	4,072	1,841
Hire purchase	8	17
	<u>4,080</u>	<u>1,858</u>

Refer to note 30 for further information on financial instruments.

Convertible notes comprise the following:

On 21 May 2013 the consolidated entity issued 18,406,116 unquoted convertible notes at \$0.10 (10 cents) each providing proceeds of \$1,841,000. Transaction costs of \$19,000 were billed separately during the year. The notes are unsecured and were issued with an interest rate of 10% and a maturity date of 20 May 2016. The notes are convertible to shares at any time prior to the maturity date at the request of the note holder at an adjusted conversion price of \$0.06 (6 cents) per share.

On 2 August 2013 the consolidated entity issued 17,317,866 unquoted convertible notes at \$0.10 (10 cents) each providing proceeds of \$1,731,787 before costs. The notes are unsecured and were issued with an interest rate of 10% and a maturity date of 1 August 2016. The notes are convertible to shares at any time prior to the maturity date at the request of the note holder at an adjusted conversion price of \$0.06 (6 cents) per share.

On 5 December 2013 the consolidated entity issued to Sam Riggall (Chairman and Non-Executive Director of the Company) 5,000,000 Convertible Notes at \$0.10 (10 cents) per note, raising \$500,000 for working capital purposes. The notes are unsecured and were issued with an interest rate of 10% and a maturity date of 20 November 2015. The notes are convertible to shares at any time prior to the maturity date at the request of the note holder at an adjusted conversion price of \$0.06 (6 cents) per share.

Note 23. Non-current liabilities - borrowings (continued)

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2014	2013
	\$'000	\$'000
Hire purchase	30	49

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2014	2013
	\$'000	\$'000
Total facilities		
Guarantees against work in progress and credit card facilities	430	370
Hire purchase facilities	30	49
	<u>460</u>	<u>419</u>
Used at the reporting date		
Guarantees against work in progress and credit card facilities	261	329
Hire purchase facilities	30	49
	<u>291</u>	<u>378</u>
Unused at the reporting date		
Guarantees against work in progress and credit card facilities	169	41
Hire purchase facilities	-	-
	<u>169</u>	<u>41</u>

Note 24. Non-current liabilities/assets - deferred tax

	Consolidated				
	Net balance 1 July \$'000	Recognised in profit or loss \$'000	Recognised directly in equity \$'000	Acquired in business combination \$'000	Balance at 30 June 2014 Deferred tax assets \$'000 Deferred tax liabilities \$'000
<i>Deferred tax asset (liability) comprises temporary differences attributable to:</i>					
Amounts recognised in profit or loss:					
Intangible assets	(2,772)	(60)			(2,832)
Government grant	(7)	7			-
Unearned interest	(1)	-			(1)
Accrued expenses	199	33			232
Employee benefits	119	(12)			107
Software development costs	1	(1)			-
Investment in Associated Water Pty Ltd	682	(682)			-
Transaction costs on share issues	65	-	68		133
Legal and consulting fees	72	10			82
Plant & equipment	-			15	15
Unused tax losses	1,642	622			2,264
Tax liabilities (assets) before set-off	-	(68)	68	15	2,833
Set off deferred tax assets/liabilities	-				(2,833)
Net tax liabilities (assets)	-				-
<i>Movements 2013</i>					
Opening balance	70				
Charged to profit or loss (note 9)	(70)				
Closing balance	-				

Note 25. Non-current liabilities - employee benefits

	Consolidated	
	2014 \$'000	2013 \$'000
Annual and long service leave	16	29

Note 26. Equity - issued capital

	Consolidated			
	2014 Shares	2013 Shares	2014 \$'000	2013 \$'000
Ordinary shares - fully paid	241,670,775	143,793,514	17,787	13,149

Note 26. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2012	143,651,853		13,151
Shares issued as a result of the Employee Tax Exempt Share Plan	13 August 2012	141,661	\$0.12	17
Cost of issuing convertible notes		-	\$0.00	(19)
Balance	30 June 2013	143,793,514		13,149
Shares issued as a result of the employee tax exempt share plan	5 November 2013	163,504	\$0.10	16
Shares issued in accordance with share purchase plan	8 November 2013	5,563,757	\$0.07	412
Shares issued through placement	14 March 2014	37,032,755	\$0.05	1,852
Shares issued as approved by the annual general meeting	8 May 2014	55,117,245	\$0.05	2,756
Capital raising costs		-	\$0.00	(398)
Balance	30 June 2014	<u>241,670,775</u>		<u>17,787</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital. All ordinary shares rank equally with regard to the consolidated entity's residual assets.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the consolidated entity defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends likely to be proposed and paid to ordinary shareholders.

The Board's target is for employees of the consolidated entity, excluding the founders, to hold 10 percent of the Company's ordinary shares in due course. At present assuming that all outstanding share options vest and / or are exercised, significantly less than this amount of the shares would be held by the consolidated entity's employees.

The Board ultimately seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings, new share issues and the issuing of convertible notes and the advantages and security afforded by a sound capital position. The consolidated entity may increase its debt levels if and when required in order to achieve increased returns for shareholders.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The capital risk management policy remains unchanged from the 30 June 2013 Annual Report.

Note 27. Equity - reserves

	Consolidated	
	2014	2013
	\$'000	\$'000
Share-based payments reserve	198	91

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency \$'000	Share based payments \$'000	Total \$'000
Balance at 1 July 2012	(1)	191	190
Foreign currency translation	1	-	1
Lapsed options transferred to retained earnings	-	(180)	(180)
Share based payments	-	80	80
Balance at 30 June 2013	-	91	91
Lapsed options transferred to retained earnings	-	(50)	(50)
Share based payments	-	157	157
Balance at 30 June 2014	-	198	198

Note 28. Equity - accumulated losses

	Consolidated	
	2014	2013
	\$'000	\$'000
(Accumulated losses)/retained profits at the beginning of the financial year	(2,045)	2,406
Loss after income tax expense for the year	(4,910)	(4,631)
Transfer from share based payments reserve	50	180
Accumulated losses at the end of the financial year	(6,905)	(2,045)

Note 29. Equity - dividends

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Franking credits

	Consolidated	
	2014	2013
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	572	572

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

Note 29. Equity - dividends (continued)

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated entity has assumed the benefit of franking credits in the current financial year \$572,000 (2013: \$572,000).

Note 30. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

The consolidated entity has exposure to the following risks from their use of financial instruments:

- Market risk;
- Credit risk; and
- Liquidity risk;

This note presents information about the consolidated entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board is responsible for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the consolidated entity, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the consolidated entity's activities. The consolidated entity, through their experience and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board oversees how management monitors compliance with the consolidated entity's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the consolidated entity. The Board is assisted in its oversight role by the Audit Committee and executive management team. Executive management undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board and the Audit Committee.

Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations. There is no current material exposure to foreign exchange risk.

Note 30. Financial instruments (continued)

Market price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The consolidated entity currently has no significant debt subject to variable interest rates. Accordingly the consolidated entity has limited exposure to interest rate movements. The consolidated entity has a term deposit facility used as security for bank guarantees.

All borrowings are at fixed rates of interest and therefore not subject to interest rate risk.

Fair value sensitivity analysis for fixed-rate instruments

The consolidated entity does not account for any fixed-rate financial assets or liabilities at fair value through profit or loss, and the consolidated entity does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

A change of 100 basis points in interest rates would have increased or decreased equity by approximately \$37,000 after tax (2013: \$2,000).

Credit risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the consolidated entity's receivables from customers. The carrying amount of financial assets represents the maximum credit exposure.

Trade and other receivables

The consolidated entity's exposure to credit risk relating to trade receivables of \$613,000 (2013 \$3,354,000) is influenced mainly by the individual characteristics of each customer. The demographics of the consolidated entity's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. Geographically there is an Australian concentration of credit risk.

The consolidated entity is exposed to significant concentrations of credit risk in relation to project revenue, due to the high values of progress invoicing on a number of projects. The Board has established a credit policy under which each new significant customer is analysed individually for creditworthiness before the consolidated entity's standard payment and delivery terms and conditions are offered. Each new contract of works to be undertaken by the consolidated entity, which is greater than a predetermined level, must be approved by the Board prior to the contract being signed.

Many of the consolidated entity's customers are large multinationals and government organisations who have been transacting with the consolidated entity for a number of years. Losses relating to recovery of amounts owing to the consolidated entity have occurred very infrequently since the inception of the business. The majority of sales transactions undertaken by the consolidated entity require the customer to make payments as contract milestones are achieved. Failure of the customer to make payment by the due date will result in the further supply of goods and services being put on hold until such time as payment is received by the consolidated entity.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. The consolidated entity's trade and other receivables relate mainly to the Group's wholesale customers who are predominantly made up of public companies and government bodies. Customers that are graded as "high risk" are placed on a restricted customer list, and future sales are made on a prepayment basis with approval of executive management. From inception to the date of this report, the consolidated entity has only ever had two minor trade bad debts. Refer to Note 11 for debtors aging analysis.

Guarantees

The consolidated entity's policy is to provide financial guarantees only to wholly-owned subsidiaries. Details of outstanding guarantees are provided in Note 23.

Note 30. Financial instruments (continued)

The consolidated entity provides guarantees for work performed on each project contracts. These guarantees are put in place at the commencement of the contract and remain in place until approximately 12 months after the completion of the contract. These guarantees are issued under the Company's guarantee facility (refer note 23).

Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its obligations associated with its financial liabilities as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

The consolidated entity adopts milestone and progress invoicing, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the consolidated entity ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the consolidated entity maintains the following lines of credit:

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2014	2013
	\$'000	\$'000
Guarantees against work in progress	124	41

Exposure to liquidity risk

The following tables detail the consolidated entity's remaining contractual maturity for its financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments

	Carrying amount \$'000	Contractual cash flows				Total \$'000
		1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	
Consolidated - 2014						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	591	591	-	-	-	591
Other payables	295	295	-	-	-	295
Deferred consideration payable	2,000	2,000	-	-	-	2,000
<i>Interest-bearing - fixed rate</i>						
Convertible notes payable	4,072	407	2,720	1,767	-	4,894
Hire purchase	30	25	8	-	-	33
Total non-derivatives	6,988	3,315	2,728	1,767	-	7,810

Note 30. Financial instruments (continued)

Consolidated - 2013	Carrying amount \$'000	1 year or less \$'000	Contractual cash flows			Total \$'000
			Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	3,449	3,449	-	-	-	3,449
Other payables	350	350	-	-	-	350
<i>Interest-bearing - fixed rate</i>						
Other loans	1,700	1,700	-	-	-	1,700
Convertible notes payable	1,841	184	1,887	-	-	2,071
Hire purchase	49	35	19	-	-	54
Total non-derivatives	7,389	5,718	1,906	-	-	7,624

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. Trade and other payables are measured at fair value on recognition and at amortised cost using the effective interest rate method subsequently. Due to their short term nature neither trade and other receivables or trade and other payables are discounted.

Borrowings are recognised at fair value of consideration received, net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method. In estimating amortised cost the consolidated entity takes into account its borrowing capacity and the source of its borrowings. The categorisation of the borrowings based on the fair value hierarchy is detailed in Note 31.

Note 31. Fair value measurement

Fair value hierarchy

The following tables show the carrying amounts and fair values of the consolidated entity's financial assets and financial liabilities, measured or disclosed at fair value, using a three level hierarchy, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Consolidated - 2014	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Financial assets not measured at fair value</i>					
Cash and cash equivalents	2,540				
Trade and other receivables	788				
Income tax receivable	463				
Other financial assets	307				
	<u>4,098</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Financial liabilities not measured at fair value

Trade and other payables	(2,866)				
Other borrowings	(38)	-	-	-	-
Convertible Notes	(4,072)	-	(4,661)	-	(4,661)
	<u>(6,976)</u>	<u>-</u>	<u>(4,661)</u>	<u>-</u>	<u>(4,661)</u>

		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Consolidated - 2013	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Financial assets not measured at fair value</i>					
Cash and cash equivalents	1,081				
Trade and other receivables	3,717				
Income tax receivable	683				
Other financial assets	290				
	<u>5,771</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Financial liabilities not measured at fair value

Trade and other payables	(3,799)				
Other borrowings	(1,749)	-	-	-	-
Convertible Notes*	(1,841)	-	(1,841)	-	(1,841)
	<u>(7,389)</u>	<u>-</u>	<u>(1,841)</u>	<u>-</u>	<u>(1,841)</u>

* - These convertible notes were issued on 21 May 2013 as disclosed in note 23. The fair value at 30 June 2013 is not materially different to the fair value at 21 May 2013.

There were no transfers between levels during the financial year.

The tables do not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Financial instruments not measured at fair value – valuation technique

Type	Valuation technique	Significant unobservable inputs
Convertible notes	Discounted cash flows	Not applicable

Note 31. Fair value measurement (continued)

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

Compliance with the consolidated entity's standards is supported by a programme of periodic reviews undertaken by management.

Note 32. Key management personnel disclosures

Directors

The following persons were directors of CleanTeQ Holdings Limited during the financial year:

Sam Riggall (Chairman and Non-Executive Director)	
Peter Voigt (Executive Director)	
Roger Harley (Independent Non-Executive Director)	
Ian Knight (Independent Non-Executive Director)	- Appointed 17 July 2013
Greg Toll (Executive Director)	- Retired 21 November 2013

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

Cory Williams	Chief Executive Officer - appointed 29 November 2013
Melanie Leydin	Company Secretary - appointed 7 July 2011
Tony Panther	Chief Financial Officer - appointed 10 January 2013

Note 32. Key management personnel disclosures (continued)

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2014	2013
	\$	\$
Short-term employee benefits	973,307	661,392
Post-employment benefits	81,151	46,759
Long-term benefits	11,421	3,115
Termination benefits	50,000	-
Share-based payments	156,952	81,500
	<u>1,272,831</u>	<u>792,766</u>

The key management personnel receive no compensation in relation to the management of the Company. Key management personnel are compensated for management of the consolidated entity.

Information regarding individual directors and executives' compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 are provided in the Remuneration Report section of the Directors' Report.

Apart from the details disclosed in this note, note 23 or note 36, no director has entered into a material contract with the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at the year end.

Note 33. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the Company:

	Consolidated	
	2014	2013
	\$	\$
<i>Audit services - KPMG</i>		
Audit or review of the financial statements	96,300	95,000
Audit-related services	28,675	-
	<u>124,975</u>	<u>95,000</u>
<i>Other services - KPMG</i>		
Advisory services	-	15,000
Taxation services	23,500	10,000
	<u>23,500</u>	<u>25,000</u>
	<u>148,475</u>	<u>120,000</u>

Note 34. Contingent liabilities

The consolidated entity had no contingent liabilities at 30 June 2014 or 30 June 2013.

Note 35. Commitments

	Consolidated	
	2014	2013
	\$'000	\$'000
<i>Hire purchases</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	25	35
One to five years	8	19
	<hr/>	<hr/>
Total commitment	33	54
Less: Future finance charges	(3)	(5)
	<hr/>	<hr/>
Net commitment recognised as liabilities	<u>30</u>	<u>49</u>
 <i>Representing:</i>		
Current hire purchase liability (note 20)	22	32
Non- current hire purchase liability (note 23)	8	17
	<hr/>	<hr/>
	<u>30</u>	<u>49</u>
 <i>Operating leases (non-cancellable)</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	216	158
One to five years	789	158
More than five years	35	-
	<hr/>	<hr/>
	<u>1,040</u>	<u>316</u>

The consolidated entity terminated its operating lease of its previous head office premises in Dandenong South with effect from 7 January 2014. It was not required to make any further lease payments after the cancellation date.

Note 36. Related party transactions

Parent entity

CleanTeQ Holdings Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 39.

Joint ventures

Interests in joint ventures are set out in note 40.

Key management personnel

Disclosures relating to key management personnel are set out in note 32 and the remuneration report in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2014	2013
	\$	\$
Sale of goods and services:		
Provision of management, labour and administration to Associated Water Pty Ltd	86,400	498,037

Note 36. Related party transactions (continued)

These fees are charged on normal commercial terms and conditions in accordance with the consultancy services and administration services agreements.

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	2014	2013
	\$	\$
Current receivables:		
Trade receivables from Associated Water Pty Ltd	-	25,437

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated	
	2014	2013
	\$	\$
Current borrowings:		
Loan from Associated Water Pty Ltd	-	1,000,000
Loan from Toll Associates Pty Ltd	-	700,000

Associated Water Pty Ltd (AW) is a company in which the consolidated entity was previously a Joint Venture partner. As noted elsewhere in these financial statements, in January 2014 Associated Water became a wholly-owned subsidiary of Clean TeQ Limited and a part of the consolidated entity. Accordingly, it ceased to be a related party external to consolidated entity at that time. Peter Voigt and Greg Toll were directors of AW while it was a related party. Mr Toll retired as a director of AW in November 2013.

Toll Associates Pty Ltd is a company in which Greg Toll, a director of CleanTeQ until his retirement in November 2013, is an owner and director.

Terms and conditions

The loan advanced by Associated Water was a short term unsecured loan, with an interest rate of 9.08%. The loan from Toll Associates Pty Ltd was a short term unsecured loan, with an interest rate of 9.08%. All transactions were made on normal commercial terms and conditions and at market rates.

Note 37. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2014	2013
	\$'000	\$'000
Profit/(loss) after income tax	(995)	(36)
Total comprehensive income/(loss)	(995)	(36)

Note 37. Parent entity information (continued)

Statement of financial position

	Parent	
	2014	2013
	\$'000	\$'000
Total current assets	33	281
Total assets	18,269	12,217
Total current liabilities	44	23
Total liabilities	4,116	1,864
Equity		
Issued capital	17,787	13,149
Share-based payments reserve	198	91
Accumulated losses	(3,832)	(2,887)
Total equity	14,153	10,353

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2014 and 30 June 2013, other than the cross guarantee referred to elsewhere in these financial statements.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2014 and 30 June 2013.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment at as 30 June 2014 and 30 June 2013, or since the end of the financial year.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 38. Business combinations

(a) Associated Water Pty Ltd

On 15 January 2014 the consolidated entity acquired the remaining 50% of the shares and voting rights of Associated Water Pty Ltd (AW) from Nippon Gas Co Ltd (NGC) for the total consideration of \$2,000,000, thereby gaining control of AW. Previously the consolidated entity had a 50% shareholding in AW and had operated AW as a joint venture with NGC in order to develop, test and commercialise coal seam gas (CSG) water treatment technology. The consolidated entity acquired the remaining shareholding of AW in order to control the marketing and licensing of AW's CSG water treatment technology. Accordingly, as from acquisition date, AW became a wholly-owned subsidiary of Clean TeQ Limited and therefore part of the consolidated entity. Payment of the \$2,000,000 consideration to NGC was agreed to be made during the 2015 financial year and is therefore recorded as a current liability as at 30 June 2014.

From an accounting perspective the acquisition was a business combination in stages. Accordingly the consolidated entity recognised a gain on remeasurement of Clean TeQ Limited's previously-held 50% investment in AW to fair value at the time at which Clean TeQ Limited acquired the remaining 50% investment. This transaction amounted to a business combination achieved in stages and the gain was recognised by the consolidated entity in accordance with paragraph 42 of accounting standard AASB 3 Business Combinations.

AW contributed revenues of \$39 and loss after tax of \$46,770 to the consolidated entity for the period from 15 January 2014 to 30 June 2014. If the acquisition occurred on 1 July 2013, the full year contributions would have been revenues of \$8,561 and loss after tax of \$628,206, of which the consolidated entity actually recognised \$291,000 as its equity-accounted share of AW's pre-acquisition loss.

Consideration transferred

Total consideration transferred at the acquisition date fair value consists of \$2,000,000 in deferred cash consideration. Refer to note 19.

Acquisition-related costs

The consolidated entity incurred acquisition-related costs of \$11,000 on legal and consulting fees. These costs have been included in 'legal and professional expenses' in the statement of profit or loss and other comprehensive income.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	Fair value \$'000
Cash and cash equivalents	4
Prepayments	9
Rental bond	10
Other current assets (receivable from Clean TeQ Ltd)	601
Plant and equipment	567
Intellectual property – reacquired licence rights	3,014
Trade and other payables	(205)
	<hr/>
Total identifiable net assets acquired	4,000

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuation technique
Plant and equipment	<i>Replacement cost technique:</i> Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.
Intellectual property	<i>Market value:</i> Reflects arm's length price paid to third party as part of the acquisition transaction.

Note 38. Business combinations (continued)

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	\$'000
Consideration transferred	2,000
Fair value of pre-existing interest in AW	2,000
Fair value of identifiable net assets	(4,000)
	<hr/>
Goodwill	<hr/> <hr/> -

(b) Clean World Japan

On 15 January 2014 the consolidated entity acquired 85% of the ordinary shares of Clean World Japan (CWJ) from Nippon Gas Company (NGC) for the total consideration of \$1. Previously the consolidated entity had a 15% shareholding in CWJ, which had been established jointly by the consolidated entity and NGC to develop certain Clean TeQ technologies in the Japanese market. The consolidated entity acquired the remaining shareholding of CWJ in order to control the marketing and licensing of its technology into the relevant market. Payment of the consideration to NGC was agreed to be made during the 2015 financial year and is therefore recorded as a current liability as at 30 June 2014.

CWJ was essentially a non-operating entity during the 2014 financial year and its contribution to the economic entity after acquisition, and its full year contribution had the acquisition occurred on 1 July 2013, was immaterial.

The identifiable assets and liabilities of CWJ acquired and assumed at the acquisition date comprised cash and receivables with a fair value totalling \$10,000 and payables with a fair value totalling \$10,000.

Note 39. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2014	2013
		%	%
Clean TeQ Limited	Australia	100.00%	100.00%
Associated Water Pty Ltd	Australia	100.00%	50.00%
LiXiR Functional Foods Pty Ltd	Australia	100.00%	100.00%
Clean World Japan	Japan	100.00%	15.00%
Clean TeQ Air Pty Ltd**	Australia	100.00%	-%
Resix Pty Ltd*	Australia	-%	100.00%
CT Global Holdings Pty Ltd*	Australia	-%	100.00%
Clean TeQ Water Pty Ltd*	Australia	-%	100.00%
Clean TeQ Resin Production Pty Ltd*	Australia	-%	90.00%

* These companies were deregistered during the year ended 30 June 2014.

** The company was established and registered by the consolidated entity on 26 June 2014 and was dormant at 30 June 2014 with share capital of \$1.

Note 40. Interests in joint ventures

Interests in joint ventures are accounted for using the equity method of accounting. Information relating to joint ventures that are material to the consolidated entity are set out below:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2014 %	2013 %
Associated Water Pty Ltd	Australia	100.00%	50.00%

As noted elsewhere in this financial report, in January 2014 the consolidated entity acquired the remaining 50% of the shares of Associated Water Pty Ltd (AW) from Nippon Gas Company. The effect of this acquisition was that, at that point, AW became a wholly-owned subsidiary of Clean TeQ Limited and therefore part of the consolidated entity and ceased to be a joint venture.

Summarised financial information

	2014 \$'000	2013 \$'000
<i>Summarised statement of financial position</i>		
Cash and cash equivalents	-	572
Other current assets	-	3,216
Total assets	-	3,788
Current financial liabilities (excluding trade and other payables and provisions)	-	98
Other current liabilities	-	4
Total liabilities	-	102
Net assets	-	3,686
<i>Summarised statement of profit or loss and other comprehensive income</i>		
Revenue	44	135
Expenses	(626)	(1,234)
Loss before income tax	(582)	(1,099)
Income tax benefit	-	777
Loss after income tax	(582)	(322)
Other comprehensive income	-	-
Total comprehensive income	(582)	(322)
Consolidated entity share (50%)	(291)	(161)

The financial report for Associated Water Pty Ltd covers the period from 1 July 2013 to 15 January 2014 (date of acquisition by the consolidated entity) and the comparative information is for the year ended 30 June 2013.

Note 41. Deed of cross guarantee

The following entities are or were party to a deed of cross guarantee under which each company guarantees the debts of the others:

Clean TeQ Holdings Limited
Clean TeQ Limited
Resix Pty Ltd (deregistered March 2014)

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by CleanTeQ Holdings Limited, they also represent the 'Extended Closed Group'.

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

	2014	2013
	\$'000	\$'000
Statement of profit or loss and other comprehensive income		
Revenue	6,013	10,424
Share of losses of joint ventures accounted for using the equity method	(291)	(161)
Other income	407	-
Gain on disposal of investment	-	1,383
Changes in finished goods and inventory write downs	(447)	140
Raw materials and other direct costs	(3,988)	(9,783)
Employee benefits expenses	(3,428)	(3,086)
Impairment of capitalised development costs	-	(1,000)
Depreciation and amortisation expenses	(566)	(519)
Legal and professional expenses	(588)	(701)
Occupancy expenses	(285)	(239)
Marketing expenses	(406)	(271)
Other expenses	(520)	(633)
Finance costs	(464)	(96)
Loss before income tax (expense)/benefit	(4,563)	(4,542)
Income tax (expense)/benefit	(21)	751
Loss after income tax (expense)/benefit	(4,584)	(3,791)
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	<u>(4,584)</u>	<u>(3,791)</u>
	2014	2013
	\$'000	\$'000
Equity - retained profits		
Retained profits/(accumulated losses) at the beginning of the financial year	(1,855)	1,756
Loss after income tax (expense)/benefit	(4,584)	(3,791)
Transfer from options reserve	50	180
Accumulated losses at the end of the financial year	<u>(6,389)</u>	<u>(1,855)</u>

Note 41. Deed of cross guarantee (continued)

	2014 \$'000	2013 \$'000
Statement of financial position		
Current assets		
Cash and cash equivalents	2,528	1,081
Trade and other receivables	797	3,717
Inventories	939	1,625
Income tax receivable	463	683
Other financial assets	27	121
	<u>4,754</u>	<u>7,227</u>
Non-current assets		
Receivables	-	304
Investments accounted for using the equity method	-	1,884
Other financial assets	280	169
Plant and equipment	294	372
Intangible assets	10,560	9,998
Investment in subsidiary company	4,000	-
Other	2	-
	<u>15,136</u>	<u>12,727</u>
Total assets	<u>19,890</u>	<u>19,954</u>
Current liabilities		
Trade and other payables	2,861	3,799
Borrowings	22	1,732
Employee benefits	339	259
Other	976	848
	<u>4,198</u>	<u>6,638</u>
Non-current liabilities		
Borrowings	4,080	1,858
Deferred tax	-	44
Employee benefits	16	29
	<u>4,096</u>	<u>1,931</u>
Total liabilities	<u>8,294</u>	<u>8,569</u>
Net assets	<u>11,596</u>	<u>11,385</u>
Equity		
Issued capital	17,787	13,149
Reserves	198	91
Accumulated losses	(6,389)	(1,855)
Total equity	<u>11,596</u>	<u>11,385</u>

Note 42. Events after the reporting period

On 19 August 2014, the Company announced that the consolidated entity and Nippon Gas Co Limited (Nippon Gas) agreed to modify the payment terms relating to the consolidated entity's purchase in January 2014 of Nippon Gas's 50% share of Associated Water Pty Ltd and Nippon Gas's 85% share of Clean World Japan.

The original payment terms were that the consolidated entity would pay Nippon Gas \$1 million in August 2014 and \$1 million in May 2015.

The modified payment terms will result in the consolidated entity paying Nippon Gas \$100,000 in August 2014 and \$2.3 million in September 2015, which includes interest charged at a rate of 11% per annum from the date of acquisition. The financial effects of this transaction will be recognised in the 2015 financial year.

Apart from the matter referred to above, no other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 43. Reconciliation cash used in operating activities

		Consolidated	
	Note	2014	2013
		\$'000	\$'000
Loss after income tax expense for the year		(4,910)	(4,631)
Adjustments for:			
Depreciation and amortisation	8	705	568
Impairment of intangibles		-	1,000
Net loss on disposal and write-off of non-current assets		30	-
Share-based payments	8	173	97
Write down of stock on hand	12	447	-
Revaluation of investments	7	(407)	-
Share of associate losses	6	291	161
Profit on disposal of discontinued operations		-	(582)
Hire purchase interest charges		-	6
Change in operating assets and liabilities:			
Decrease/(increase) in trade and other receivables		2,953	(1,226)
Decrease in inventories		34	860
Decrease/(increase) in income tax refund due		220	(683)
Increase in deferred tax assets		-	(55)
Decrease in accrued revenue		205	-
Increase/(decrease) in trade and other payables		(3,127)	1,325
Increase/(decrease) in employee benefits		67	(74)
Increase/(decrease) in other operating liabilities		128	(541)
Net cash used in operating activities		<u>(3,191)</u>	<u>(3,775)</u>

Note 44. Non-cash investing and financing activities

	Consolidated	
	2014	2013
	\$'000	\$'000
Issue of shares in lieu of services	-	96

Note 45. Earnings per share

	Consolidated	
	2014	2013
	\$'000	\$'000
<i>Earnings per share for loss from continuing operations</i>		
Loss after income tax attributable to the owners of CleanTeQ Holdings Limited	<u>(4,910)</u>	<u>(5,213)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>166,578,551</u>	<u>143,776,779</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>166,578,551</u>	<u>143,776,779</u>
	Cents	Cents
Basic earnings per share	(2.95)	(3.63)
Diluted earnings per share	(2.95)	(3.63)
	Consolidated	
	2014	2013
	\$'000	\$'000
<i>Earnings per share for profit from discontinued operations</i>		
Profit after income tax attributable to the owners of CleanTeQ Holdings Limited	<u>-</u>	<u>582</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>-</u>	<u>143,776,779</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>-</u>	<u>143,776,779</u>
	Cents	Cents
Basic earnings per share	-	0.40
Diluted earnings per share	-	0.40
	Consolidated	
	2014	2013
	\$'000	\$'000
<i>Earnings per share for loss</i>		
Loss after income tax attributable to the owners of CleanTeQ Holdings Limited	<u>(4,910)</u>	<u>(4,631)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>166,578,551</u>	<u>143,776,779</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>166,578,551</u>	<u>143,776,779</u>
	Cents	Cents
Basic earnings per share	(2.95)	(3.22)
Diluted earnings per share	(2.95)	(3.22)

The options and convertible notes have been classified as potential ordinary shares and are included in the determination of diluted earnings per share, except where the potential ordinary shares are anti-dilutive.

The options and convertible notes on issue throughout the current financial year are not dilutive in effect, as the consolidated entity recorded a net loss in the year.

Note 46. Share-based payments

On 24 September 2007 the Company introduced a share option plan for employees, directors and service providers of Clean TeQ ("the Plan"). The Plan entitles key management personnel, service providers and employees to purchase shares in the Company.

Set out below are summaries of options granted under the plan:

2014							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/07/2010	01/07/2013*	\$0.28	115,000	-	-	(115,000)	-
01/07/2010	01/07/2014**	\$0.31	115,000	-	-	(105,000)	10,000
01/07/2010	01/07/2015**	\$0.34	115,000	-	-	(105,000)	10,000
30/06/2011	30/06/2014*	\$0.08	1,000,000	-	-	(1,000,000)	-
30/06/2011	30/06/2015	\$0.25	500,000	-	-	-	500,000
30/06/2011	30/06/2016	\$0.40	500,000	-	-	-	500,000
15/11/2012	30/11/2015**	\$0.19	3,000,000	-	-	(1,500,000)	1,500,000
01/12/2013	30/11/2018	\$0.10	-	4,000,000	-	-	4,000,000
08/05/2014	30/11/2018	\$0.10	-	2,000,000	-	-	2,000,000
			5,345,000	6,000,000	-	(2,825,000)	8,520,000
Weighted average exercise price:			\$0.2024	\$0.1000	-	\$0.1648	\$0.1428

* Options expired during the year

** Options lapsed as employee ceased employment

The weighted average number of years for share options issued under the Plan is 3.54 years (2013: 2.08 years)

4 million unlisted share options were issued to Cory Williams on 14 January 2014. 2 million unlisted share options were issued to John Carr on 8 May 2014.

2013							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
09/11/2007	09/11/2012*	\$0.60	535,000	-	-	(535,000)	-
24/04/2008	24/03/2013*	\$0.41	10,000	-	-	(10,000)	-
20/05/2008	20/05/2013**	\$0.50	10,000	-	-	(10,000)	-
01/07/2008	1/07/2012*	\$0.36	75,000	-	-	(75,000)	-
01/04/2009	1/04/2013**	\$0.21	10,000	-	-	(10,000)	-
01/04/2009	1/04/2014**	\$0.23	10,000	-	-	(10,000)	-
22/06/2009	22/06/2013**	\$0.36	10,000	-	-	(10,000)	-
22/06/2009	22/06/2014**	\$0.40	10,000	-	-	(10,000)	-
05/03/2010	05/03/2013*	\$0.60	582,011	-	-	(582,011)	-
04/03/2010	04/03/2013***	\$0.35	125,000	-	-	(125,000)	-
01/07/2010	1/07/2013	\$0.28	115,000	-	-	-	115,000
01/07/2010	1/07/2014	\$0.31	115,000	-	-	-	115,000
01/07/2010	1/07/2015	\$0.34	115,000	-	-	-	115,000
30/06/2011	30/06/2014	\$0.08	1,000,000	-	-	-	1,000,000
30/06/2011	30/06/2015	\$0.25	500,000	-	-	-	500,000
30/06/2011	30/06/2016	\$0.40	500,000	-	-	-	500,000
16/02/2012	16/02/2015**	\$0.18	1,000,000	-	-	(1,000,000)	-
16/02/2012	16/02/2015**	\$0.25	500,000	-	-	(500,000)	-
15/11/2012	30/11/2015	\$0.19	-	3,000,000	-	-	3,000,000
			5,222,011	3,000,000	-	(2,877,011)	5,345,000
Weighted average exercise price:			\$0.3024	\$0.1900	-	\$0.3709	\$0.2024

Note 46. Share-based payments (continued)

* Options expired during the year

** Options lapsed as employee ceased employment

*** 110,000 options expired, 15,000 options lapsed as employee ceased employment.

At the AGM on 15 November 2012, the shareholders approved the issue of 3 million unlisted share options to the directors of the consolidated entity. The options had an exercise price of 25% above Volume Weighted Average Price ('VWAP') on the date of issue, being \$0.1935 (19.35 cents), and vested upon issue and are exercisable by 30 November 2015.

For the options granted during the current financial year, the Binomial pricing model was used to value the options. The valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
01/12/2013*	30/11/2018	\$0.06	\$0.10	99.66%	-%	4.60%	\$0.041
01/12/2013*	30/11/2018	\$0.06	\$0.10	99.66%	-%	4.60%	\$0.039
01/12/2013*	30/11/2018	\$0.06	\$0.10	99.66%	-%	4.60%	\$0.037
08/05/2014	30/11/2018	\$0.05	\$0.10	106.54%	-%	3.71%	\$0.029
08/05/2014	30/11/2018	\$0.05	\$0.10	106.54%	-%	3.71%	\$0.027
08/05/2014	30/11/2018	\$0.05	\$0.10	106.54%	-%	3.71%	\$0.025

* - Assumed grant date used for input to option valuation model to determine fair value was 23 December 2013, with the difference between the grant date and valuation date being insignificant. In accordance with the option grant agreement, the options were actually issued on 14 January 2014.

CleanTeQ Holdings Limited
Directors' declaration
30 June 2014

In the directors' opinion:

- the attached consolidated financial statements and notes thereto comply with the Corporations Act 2001, the Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached consolidated financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2(c) to the financial statements;
- the attached consolidated financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 41 to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors



Ian Knight
Director

20 August 2014
Melbourne



Independent auditor's report to the members of Clean TeQ Holdings Limited

Report on the financial report

We have audited the accompanying financial report of Clean TeQ Holdings Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 46 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(c), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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*.



Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Emphasis of matter – going concern

Without modifying our opinion, we draw attention to Note 2 under the heading "Going Concern" which indicates that the Group incurred a net loss after tax from continuing operations of \$4,910,000 during the year ended 30 June 2014 and, as of that date, the Group's current assets exceeded its current liabilities by \$534,000. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 16 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the Remuneration Report of Clean TeQ Holdings Limited for the year ended 30 June 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

GRAS

Tony Batsakis
Partner

Melbourne

20 August 2014

CleanTeQ Holdings Limited
Shareholder information
30 June 2014

The information below is current as at 31 July 2014.

Distribution of equity securities

Analysis of number of equity security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares	Number of holders of convertible notes
1 to 1,000	19	-	-
1,001 to 5,000	104	-	-
5,001 to 10,000	133	-	-
10,001 to 100,000	642	1	-
100,001 and over	236	5	2
	<u>1,134</u>	<u>6</u>	<u>2</u>

The number of shareholders holding less than a marketable parcel of ordinary shares:

184

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares Number held	% of total shares issued
THIERVILLE PTY LTD (THE STAR SUPER FUND A/C)	21,328,342	8.83
NIPPON GAS CO LTD	14,000,000	5.79
MR GREGORY LEONARD TOLL + MRS MARGARET ESTELLE TOLL (TOLL S/F A/C)	12,743,422	5.27
MR ROBERT MARTIN FRIEDLAND	11,950,000	4.94
WASABI ENERGY LIMITED	11,279,771	4.67
ENHANCED SYSTEMS TECHNOLOGIES LIMITED	11,246,356	4.65
PICTON COVE PTY LTD	7,000,000	2.90
MR PETER JOHN DIAMOND + MRS DIANA ELIZABETH DIAMOND (PETER&DIANA DIAMOND S/F A/C)	6,000,000	2.48
JEREMY'S HAVEN PTY LTD	5,690,310	2.35
RUBICON NOMINEES PTY LTD	5,681,225	2.35
THIERVILLE PTY LTD	4,550,801	1.88
WALLOON SECURITIES PTY LTD	3,500,000	1.45
FORDHOLM CONSULTANTS PTY LTD (DIANA BOEHME SUPER FUND A/C)	3,000,000	1.24
MR DAVID NEVILLE COLBRAN	2,800,000	1.16
PALAZZO CORPORATION PTY LTD	2,700,000	1.12
RUBI HOLDINGS PTY LTD (JOHN RUBINO S/F A/C)	2,600,000	1.08
HSBC Custody Nominees (Australia) Pty Ltd	2,070,199	0.86
MR CORY DAVID WILLIAMS (ATF WILLIAMS FAMILY TRUST)	2,000,000	0.83
AQUA GUARDIAN GROUP LIMITED	1,974,812	0.82
LEYMAR INTERNATIONAL PTY LTD	1,900,000	0.79
	<u>134,015,238</u>	<u>55.45</u>

CleanTeQ Holdings Limited
Shareholder information
30 June 2014

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares with various exercise prices and expiry dates	8,510,000	6
Convertible notes with a face value of \$0.10 (10 cents) and maturity date of 20 May 2016 and interest payable at 10% pa. These notes are held by Mr Robert Friedland.	18,406,116	1
Convertible notes with a face value of \$0.10 (10 cents) and maturity date of 1 August 2016 and interest payable at 10% pa. These notes are held by Mr Robert Friedland.	17,317,866	1
Convertible notes with a face value of \$0.10 (10 cents) and maturity date of 20 November 2015 and interest payable at 10% pa. These notes are held by Mr Sam Riggall, the Chairman of the Company	5,000,000	1

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares % of total shares issued
Number held	
Peter Voigt and Thierville Pty Ltd	25,948,016 10.74
Wasabi Energy Limited & Aqua Guardian Group Limited	24,353,424 10.08
Nippon Gas Co Ltd	14,000,000 5.79
Mr Gregory L Toll + Mrs Margaret E Toll (Toll S/F A/C)	12,825,152 5.31

Voting rights

The voting rights attached to ordinary shares are set out below. Other classes of equity securities do not have voting rights.

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.