Clean TeQ Holdings Limited
ABN 34 127 457 916

HALF-YEAR FINANCIAL REPORT 31 DECEMBER 2019

Contents

Directors' Report

For the financial half-year ended 31 December 2019

The directors present their report, together with the financial statements, for the Consolidated Entity consisting of Clean TeQ Holdings Limited (referred to hereafter as the 'Parent Entity', 'the Company' or 'Clean TeQ') and the entities it controlled (referred to hereafter as the 'Consolidated Entity'), for the financial half-year ended 31 December 2019, referred to hereafter as the 'financial half-year', and the auditor's review report thereon.

Directors

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

Robert Friedland (Co-Chairman and Non-Executive Director)

Jiang Zhaobai (Co-Chairman and Non-Executive Director)

Sam Riggall (Managing Director and Chief Executive Officer)

Shawn Wang (Non-Executive Director) – resigned 30 October 2019

Judith Downes (Non-Executive Director)

Eric Finlayson (Non-Executive Director)

Ian Knight (Non-Executive Director)

Stefanie Loader (Lead Independent Non-Executive Director)

Michael Spreadborough (Non-Executive Director)

The Consolidated Entity announced on 30 October 2019 that Mr Shawn Wang, who had been appointed as a Non-Executive Director of the Consolidated Entity since 6 March 2019, had resigned as a director, effective from that date. The Board would like to thank Mr Wang for his valuable and substantial contribution.

Principal activities

During the financial half-year the principal continuing activities of the Consolidated Entity consisted of:

- The ongoing development and use of the Clean-iX® resin technology for application in the extraction and purification of a range of resources in the mining industry including base metals, precious metals and rare earth elements and through the development of the Consolidated Entity's Clean TeQ Sunrise Project in New South Wales ('Metals Division'); and
- The ongoing development and commercialisation of the Company's proprietary Continuous Ionic Filtration ('CIF®') resin technologies and associated technology products and processes for application in the purification and recycling of industrial, municipal and mining waste waters ('Water Division').

There have been no significant changes in the nature of the Consolidated Entity's activities during the financial half-year.

Dividends

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

Review of Operations

The loss after tax for the Consolidated Entity amounted to $10,280,000 (31 December 2018: loss after tax of $9,116,000).

During the financial half-year, the Consolidated Entity's revenue from continuing operations decreased to $666,000 (31 December 2018: $2,953,000) primarily due to decreases in contract income from Water Projects brought to account in the financial half-year.

The continuing development of the Clean TeQ Sunrise Project resulted in $23,849,000 of expenditure being capitalised as an exploration and evaluation asset during the financial half-year. This expenditure, along with the net cash inflows from operating activities of $3,691,000 (31 December 2018: net outflow $9,774,000), was financed largely from existing cash reserves and from the receipt of a research and development tax incentive during the financial half-year.

The Consolidated Entity's net assets decreased during the financial half-year by $9,008,000 to $228,468,000 (30 June 2019: $237,476,000). Working capital, being current assets less current liabilities, amounts to a surplus of $52,647,000 (30 June 2019: $85,396,000 surplus), with cash reserves decreasing from $78,871,000 to $57,953,000 during the financial half-year.

During the financial half-year, the Company received a cash payment of $14,549,000 from the Australian Tax Office, representing the refundable tax offset available under the Research and Development Tax Incentive for the financial year ended 30 June 2018.

Metals Division

During the financial half-year, the Consolidated Entity continued to progress the development of the Clean TeQ Sunrise Nickel-Cobalt-Scandium Project ('Sunrise' or 'Project').

Sunrise Project Works

The primary focus for the Sunrise team during the financial half-year was progressing the Project Execution Plan in conjunction with Fluor Australia Pty Ltd ('Fluor'). The current scope of work for the integrated Fluor and Clean TeQ team includes a range of activities intended to deliver a Project Execution Plan that sets up the Project for future delivery on a conventional Engineering, Procurement and Construction Management ('EPCM') execution approach. This scope of work includes systematic collation and review of all the feasibility, engineering and project development work undertaken for the Project to date. The principal deliverables of the Project Execution Plan are an updated capital cost estimate for the Project, incorporating input from design and engineering work to date, and a revised master schedule for the engineering, procurement, construction and commissioning of the Project.

The Project Execution Plan works undertaken during the financial half-year included:

- Working on engineering and design of the Sunrise process plant flow sheet with input from external design engineers including VNIPIpromtechnologii and Ausenco.
- Ongoing engineering and design of non-process plant infrastructure including the borefield infrastructure, water supply pipeline and site earthworks.
- Updating materials quantities estimates based on latest Project design and scope.
- Seeking revised pricing/quotes from vendors for a number of key equipment packages where design parameters have changed.
- Further optimisation of mining scheduling/planning based on test work and geo-metallurgical modelling.
- Preparing a detailed update to the construction, commissioning and ramp-up schedule for the Project.

Over the financial half-year, the Company also continued to progress a range of other desk-top and site-based activities including:

- The Sunrise environment and approvals team continued to make good progress with the approval of management plans required prior to construction commencing. Nine of the ten required management plans have now been approved by the NSW Department of Planning, Industry and Environment.
- On-site installation and commissioning of particulate matter dust monitors. Along with the existing meteorological station and dust deposition gauges, these particulate dust monitors will establish important site environmental baseline information.
- Aboriginal cultural heritage salvage works were undertaken on the mining lease area in accordance with our Aboriginal Heritage Impact Permit. Members of our registered local Aboriginal parties participated in the salvage works. Collected artefacts are stored in a secure Aboriginal Keeping Place.
- Additional geotechnical drilling at the proposed site of the Sunrise processing plant.
- A significant tree planting operation. Approximately 9,500 native species tree seedlings were planted around a number of Project area boundaries. In future years, the resulting vegetation screen will mitigate any visual amenity impacts of the Project.

Sunrise Partnering Process

In June 2019, Clean TeQ announced that it had appointed Macquarie Capital to run a partnering process for the Sunrise Project, whereby parties would be offered an investment in the Project of up to 50% in conjunction with long-term offtake arrangements. The partnering process remains ongoing. Clean TeQ is targeting concluding the partnering process in the first half of 2020 to align with a planned final investment decision in mid-2020, subject to the completion of a financing package by that time.

Scandium Marketing

During the financial half-year Clean TeQ announced a collaboration with Panasonic Corporation Global Procurement Company to develop applications for Scandium Aluminium Alloys for Panasonic Group. The two companies have also agreed a binding Scandium Offtake Heads of Agreement for Clean TeQ to supply up to five tonnes per annum of scandium oxide (volumes to be determined at Panasonic's election) from the Sunrise Project.

Clean TeQ, through its scandium technical and marketing team, will support Panasonic research and development to investigate the functional and commercial benefits of using scandium-containing aluminium alloys for certain applications in consumer and electronic products. Clean TeQ will also contribute to the program by supplying scandium master alloy, procured from one of the Company's industry partners.

The collaboration with Panasonic is consistent with the Consolidated Entity's long-term strategy to work with, and assist, established industry players to investigate and develop new applications for scandium-aluminium alloys. The Company's aim is to stimulate growth in demand for the material which will be converted into sales of scandium from the Sunrise Project once it is in operation.

Water Division

During the financial half-year Clean TeQ's Water Division was focused on completing key projects in Australia, Oman and the Democratic Republic of the Congo (DRC). These three Clean TeQ systems are the first of their type anywhere in the world and have been deployed as part of three different technical solutions. The successful delivery and commissioning of the three plants will demonstrate the efficacy of Clean TeQ's suite of proprietary ion exchange technologies and their versatility for metal extraction and waste-water treatment. As commercial scale plants, the facilities are expected to provide a valuable platform from which to rapidly grow Clean TeQ Water.

The Water Division also maintained an active program of research and development of complimentary water purification technologies with a view to expanding and enhancing the Consolidated Entity's product offering in the water purification industry.

Water Projects

In November 2019, the Company announced successful customer acceptance of commissioning and handover of a ground-breaking CIF® plant in Oman. Clean TeQ was engaged by Multotec, the Company's sales and delivery partner in Africa, under a design, procure and construct contract to deliver a waste-water treatment system at an antimony processing facility. The CIF® plant, utilising the Company's proprietary continuous ion-exchange technology, is designed to remove a range of deleterious elements from up to 200 tons of waste-water per day. By treating the waste, the customer is able to recycle a significant proportion of the water for re-use in their processing plant, rather than disposing of it. This provides a valuable cost saving for the customer in a geographic location where water is relatively scarce. Recycling the water also results in environmental benefits by significantly reducing the volume of waste which would otherwise need to be disposed.

Achieving customer acceptance of commissioning and handover of the plant demonstrates the effectiveness of the Company's proprietary technology as well as the capability of the Clean TeQ Water team. The plant was custom designed by Clean TeQ engineers in Melbourne, Australia, to meet the water treatment specifications required by the customer. CIF® plant fabrication, procurement and delivery was undertaken by Company personnel primarily based in Beijing. Equipment erection and installation was undertaken by a local construction contractor under supervision of Clean TeQ and Multotec.

Clean TeQ Water is now focused on completing two additional key projects at the Fosterville Gold Mine in Victoria, Australia and at a copper-cobalt mine in the DRC.

At the Fosterville Gold Mine in Victoria, Australia, Clean TeQ was engaged to design, supply and commission a two million litre-per-day Clean TeQ DeSALx® mine water treatment plant. The plant is designed to deliver a sustainable water management solution by treating mine process water for reuse in the mine operations. Construction of the plant has been completed and the commissioning process is progressing with performance testing (required for completion and formal handover of the Clean TeQ plant) scheduled for Q1 2020, subject to the successful commissioning of ancillary plant by the customer.

In the DRC, Clean TeQ has been engaged to design and construct a Continuous Resin-In-Column (cLX) Ion Exchange plant to treat up to 20 million litres-per-day of a raffinate stream, removing contaminant metals and improving the quality and environmental rank of the raffinate, prior to further processing. All construction was completed during 2019 with hot commissioning commencing shortly thereafter. Initial tests showed that the cLX plant was performing well, exceeding design expectations. However, an accidental uncontrolled release of high-pressure water from the main plant into the cLX system resulted in some damage being caused to the Clean TeQ plant, taking it offline. Repairs, as well as some other changes to the plant and process, are now close to completion. Expectations are for a restart of the plant over the coming months, with performance testing of the cLX system to follow thereafter.

Clean TeQ Water has been advised that it is the preferred technical solution for the design and construction of a recycled water re-use plant at the Cleveland Bay Purification Plant in Townsville. Commercial negotiations between the parties are ongoing. Final award of a contract will be subject to a range of conditions including agreement on commercial terms and financing.

Water Technology Development

The Company continued to expand its water technology platform during the quarter with the ongoing development of the encapsulated bacteria 'CleanBio Lenses' manufacturing facility in China. In 2018, Clean TeQ acquired an encapsulated bacteria technology from LentiKats, comprising technology licences and a production plant for the manufacture of CleanBio Lenses. The CleanBio technology is useful in water treatment applications given the bacteria's ability to break down and remove over ninety percent of harmful nitrates and ammonia from waste-water. The bacteria are encapsulated in proprietary 'lenses' to increase their effectiveness and protect them from harmful conditions in the waste waters. CleanBio also has potential applications in the food and pharmaceuticals industries as well as in the development of encapsulated enzyme lenses.

The Company has established a production facility for CleanBio lenses in China for application in its growing pipeline of global projects. Having completed the transportation and installation of the lens manufacturing equipment at a facility in Tianjin, China, the first trial production runs for both blank lenses and inoculated lenses were successfully undertaken in Q3 2019. During Q4 2019 the Company was focused on achieving stable lens production at consistent quality. The mechanical and thermal parameters of the production process, as well as the chemical mix and the biology (inputs and cultivation) of the encapsulated bacteria, need to be calibrated correctly before this can be achieved. Upon achieving this milestone, the Company will seek to deploy the lenses on a commercial basis, as part of other Clean TeQ water treatment processes and potentially as a stand-alone product for sale.

Clean TeQ's technology development team continues to advance its work in the development of graphene oxide nanofiltration membranes and adsorbents, as well as ongoing development of the CIF® technology for water treatment applications. In water purification applications, graphene oxide membranes have the potential to offer distinct operational advantages over the current polymer nanofiltration membranes, providing a significant commercial opportunity should the technology prove successful. The benefits of graphene oxide nanofiltration membranes when compared to conventional nanofiltration membranes include higher flux (flow rates) and lower propensity to fouling. These benefits have the potential to deliver lower operating costs, longer membrane life and lower maintenance costs.

In late 2018, Clean TeQ and Ionic Industries established a joint venture company NematiQ Pty Ltd ('NematiQ') to pursue in partnership the development of graphene oxide ('GO') membranes for water treatment applications. Clean TeQ and Ionic have developed a process to manufacture high-purity GO that can be applied to a membrane support to create a graphene nanofiltration membrane ('GO-Membrane'). Significantly, the GO-Membrane manufacturing process has been demonstrated on commercial scale industrial equipment.

NematiQ has established a factory and office premises in Notting Hill, Victoria adjacent to the existing Clean TeQ head office and laboratory. From this facility, NematiQ is focused on optimising its proprietary process for refining graphite oxide raw material into graphene oxide, which is used to form the filtration layer of the GO-Membrane. A pilot plant for the manufacture of high purity graphene oxide has been designed and installed at NematiQ's premises, with graphene oxide produced by the facility to be used for larger scale manufacture of graphene oxide membranes.

The ultimate goals of the NematiQ work programs are to:

1. Confirm the technical process and cost effectiveness of the refining process to convert the raw material graphite oxide into high purity GO. This process has been successfully completed;
2. Demonstrate the GO coating process at commercial scale using a specialised process developed and patented by Monash University and licensed to NematiQ. This process has been successfully completed; and,
3. Refine the printing process to demonstrate the ability to produce GO-Membranes at commercial scale with the appropriate physical properties, flow rates and filtering capability.

The work undertaken by the NematiQ team during the financial half-year has been focused on step three above, aimed at production of a marketable GO-Membrane product.

Clean TeQ will continue working towards securing commercial contracts and anticipates both the Water and Metals Divisions to produce substantial revenues in the future.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Consolidated Entity during the financial half-year.

Matters subsequent to the end of the financial half-year

Due to the outbreak of novel coronavirus (2019-nCoV) control measures have been put in place in China limiting the movement of people. Until they are lifted, those measures are expected to result in delays to some of the Consolidated Entity's activities in China including the progress of pilot projects and CleanBio Lense manufacturing.

No other matter or circumstance has arisen since 31 December 2019 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.

Rounding of amounts

The Company is of a kind referred to in Instrument 2016/191, 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 5 and forms part of the directors' report for the financial half-year ended 31 December 2019.

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

Sam Riggall
Managing Director and Chief Executive Officer

20 February 2020
Melbourne

Lead Auditor's Independence Declaration

For the financial half-year ended 31 December 2019

KPMG

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 review of Clean TeQ Holdings Limited for the half-year ended 31 December 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Tony Romeo
Partner
Melbourne
20 February 2020

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the financial half-year ended 31 December 2019

	Note	Consolidated 31 Dec 2019 $'000	31 Dec 2018 $'000
Revenue and other income	4	666	2,953
Interest Income		645	1,670
Expenses			
Raw materials and other direct costs		(244)	(2,653)
Employee benefits expenses	5	(5,941)	(5,882)
Depreciation and amortisation expenses		(656)	(413)
Legal and professional expenses		(1,071)	(1,748)
Occupancy expenses		(468)	(608)
Marketing expenses		(301)	(551)
Test-work		(537)	(414)
Travel		(554)	(1,034)
Write down of unrecoverable assets		(971)	–
Other expenses		(819)	(434)
Finance costs		(29)	(2)
Loss before income tax benefit		**(10,280)**	**(9,116)**
Income tax benefit		–	–
Loss after income tax benefit for the half-year		**(10,280)**	**(9,116)**
Loss after income tax benefit for the half-year is attributable to:			
Owners of the company		(10,113)	(9,116)
Non-controlling interests		(167)	–
		(10,280)	(9,116)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		–	–
Other comprehensive income for the half-year, net of tax		–	–
Total comprehensive income for the half-year		**(10,280)**	**(9,116)**
Total comprehensive income for the half-year is attributable to:			
Owners of the company		(10,113)	(9,116)
Non-controlling interests		(167)	–
		(10,280)	**(9,116)**

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income (continued)

	Consolidated	
	31 Dec 2019 Cents	31 Dec 2018 Cents
Loss per share from continuing operations attributable to the owners of Clean TeQ Holdings Limited		
Basic loss per share	(1.35)	(1.22)
Diluted loss per share	(1.35)	(1.22)
Loss per share attributable to the owners of Clean TeQ Holdings Limited		
Basic loss per share	(1.35)	(1.22)
Diluted loss per share	(1.35)	(1.22)

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

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	Consolidated 31 Dec 2019 $'000	Consolidated 30 June 2019 $'000
Current assets			
Cash and cash equivalents		57,953	78,871
Trade and other receivables		2,272	3,568
Inventories		–	96
Research and development incentive receivable		5,656	14,867
Other financial assets		100	100
Total current assets		65,981	97,502
Non-current assets			
Other financial assets		242	146
Investment in equity accounted investee		838	838
Property, plant and equipment		22,263	21,553
Intangibles	6	9,044	9,367
Exploration and evaluation assets	7	144,909	121,060
Total non-current assets		177,296	152,964
Total assets		243,277	250,466
Current liabilities			
Trade and other payables		11,790	10,490
Employee benefits		420	902
Deferred revenue		47	47
Lease liabilities		410	–
Provisions		667	667
Total current liabilities		13,334	12,106
Non-current liabilities			
Employee benefits		180	143
Deferred revenue		378	402
Lease liabilities		499	–
Provisions		205	202
Shareholder loans		213	137
Total non-current liabilities		1,475	884
Total liabilities		14,809	12,990
Net assets		228,468	237,476
Equity			
Issued capital		289,637	289,637
Reserves	8	15,825	14,481
Accumulated losses		(76,735)	(66,550)
Non-Controlling Interest		(259)	(92)
Total equity		228,468	237,476

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

Consolidated Statement of Changes in Equity

For the financial half-year ended 31 December 2019

	Contributed Equity	Accumulated Losses	Reserves	Non-Controlling Interests	Total Equity
Consolidated	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2018	289,293	(48,629)	11,492	–	252,156
Loss after income tax benefit for the financial half-year	–	(9,116)	–	–	(9,116)
Total comprehensive income for the financial half-year	–	(9,116)	–	–	(9,116)
Transactions with owners in their capacity as owners:					
Equity contributions, net of transaction costs	344	–	–	–	344
Share-based payments (note 11)	–	–	2,182	–	2,182
Total contribution and distribution:	344	–	2,182	–	2,526
Total transactions with owners of the Company	344	–	2,182	–	2,526
Balance at 31 December 2018	289,637	(57,745)	13,674	–	245,566
Balance at 1 July 2019	289,637	(66,550)	14,481	(92)	237,476
Adjustment on adoption of AASB 16	–	(72)	–	–	(72)
Loss after income tax benefit for the financial half – year	–	(10,113)	–	(167)	(10,280)
Total comprehensive income for the financial half-year	–	(10,185)	–	(167)	(10,352)
Transactions with owners in their capacity as owners:					
Equity contributions, net of transaction costs	–	–	–	–	–
Share-based payments (note 11)	–	–	1,344	–	1,344
Total contribution and distribution:	–	–	1,344	–	1,344
Total transactions with owners of the Company	–	–	–	–	–
Balance at 31 December 2019	289,637	(76,735)	15,825	(259)	228,468

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

Consolidated Statement of Cash Flows

For the financial half-year ended 31 December 2019

	Consolidated	
	31 Dec 2019 $'000	31 Dec 2018 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	429	3,343
Payments to suppliers and employees (inclusive of GST)	(11,991)	(14,748)
Cash used in operating activities	(11,562)	(11,405)
Research and development tax incentive received	14,549	–
Interest received	704	1,631
Net cash from/(used in) operating activities	3,691	(9,774)
Cash flows from investing activities		
Payments for property, plant and equipment	(40)	(3,021)
Proceeds from sale of property, plant and equipment	–	6
Payments for licence rights	–	(250)
Payments for exploration and evaluation assets	(24,645)	(22,519)
Net cash used in investing activities	(24,685)	(25,784)
Cash flows from financing activities		
Proceeds from issue of shares, net of issuance costs	–	344
Proceeds from shareholder loans	76	–
Net cash from financing activities	76	344
Net decrease in cash and cash equivalents	(20,918)	(35,214)
Cash and cash equivalents at the beginning of the period	78,871	152,637
Cash and cash equivalents at the end of the period	57,953	117,423

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

Notes to the Financial Statements

For the financial half-year ended 31 December 2019

Note 1. General information

The financial statements cover the Clean TeQ Holdings Limited group as a Consolidated Entity consisting of Clean TeQ Holdings Limited ('the Company') and its subsidiaries (the Consolidated Entity'). The financial statements are presented in Australian dollars, which is the Consolidated Entity's functional and presentation currency.

Clean TeQ 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:

Unit 12, 21 Howleys Road
Notting Hill, Victoria, 3168
Australia

The financial statements were authorised for issue, in accordance with a resolution of directors, on 20 February 2020.

Note 2. Significant accounting policies

These general-purpose financial statements for the financial half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general-purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

(a) Rounding of amounts

The Company is of a kind referred to in Instrument 2016/191, 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.

(b) New standards and interpretations adopted

This is the first set of the Consolidated Entity's financial statements where AASB 16 Leases has been applied.

The Consolidated Entity applied AASB 16 initially on 1 July 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 was recognised as an adjustment to the opening balance of accumulative losses at 1 July 2019, with no restatement of comparative information.

(c) 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 half-year of \$10,280,000 (31 December 2018: loss of \$9,116,000). Working capital, being current assets less current liabilities, amounts to a surplus of \$52,647,000 (30 June 2019: \$85,396,000 surplus), with cash reserves decreasing from \$78,871,000 to \$57,953,000 during the financial half-year.

Net cash inflows from operating activities were \$3,691,000 for the financial half-year (31 December 2018: \$9,774,000 net outflow). This result was broadly consistent with management's expectations.

During the financial half-year, the following events have taken place to support the going concern basis of preparation for the Consolidated Entity:

- The Consolidated Entity has available cash on hand as at 31 December 2019 of \$57,953,000;
- The Consolidated Entity has completed or is nearing completion of a number of contracts to design, procure and construct water purification plants which have generated positive cashflows over the course of the past year. The Consolidated Entity is confident, on the basis of successful completion of these contracts, that it will be awarded additional water treatment contracts in the future; and,
- Forecast cash flows indicate the ability of the Consolidated Entity to maintain a positive cash position for at least the period of 12 months to February 2021.

The Consolidated Entity expects that the relationship with its major investors will also assist in widening the Consolidated Entity's opportunities for profitable commercialisation of its technologies in addition to assisting in securing further funding required.

Note 2. Significant accounting policies (continued)

The Consolidated Entity also made good progress in respect of the ongoing development of the Clean TeQ Sunrise Project. The Consolidated Entity will continue working towards securing commercial contracts in the near future and anticipates both the Water and Metals Divisions will produce substantial revenues in the future. The directors are confident that the Consolidated Entity can continue to access debt and equity funding to meet medium-term working capital requirements and has a history of securing such funding as required to support their confidence.

On the basis of cash and cash equivalents available as at 31 December 2019, cashflow forecasts to February 2021 and beyond, the ability of the Consolidated Entity to scale back planned activities if required to preserve cash and that sufficient funding is expected to be raised to meet the Consolidated Entity's medium to long-term expenditure forecasts, the directors consider that the Consolidated Entity remains a going concern and these financial statements have been prepared on this basis.

Note 3. Operating segments

Operating segment information

	Metals	Water	Intersegment eliminations/ unallocated	Total
Consolidated – 31 December 2019	$'000	$'000	$'000	$'000
Revenue and other income				
Sales to external customers*	–	(55)	–	(55)
Sales to internal customers	–	422	(422)	–
Other revenue	–	–	721	721
Total revenue and other income	–	367	299	666
Reportable segment (loss)/profit before tax	(1,301)	(2,228)	(6,751)	(10,280)
Profit/(loss) before income tax benefit				(10,280)
Income tax benefit				–
Loss after income tax benefit				(10,280)
Assets				
Segment assets	175,908	8,133	59,236	243,277
Total assets				243,277
Liabilities				
Segment liabilities	11,081	1,151	2,577	14,809
Total liabilities				14,809

* The negative balance arose as a result of credit notes being issued to customers which exceeded the value of sales receipts during the period.

Note 3. Operating segments (continued)

Consolidated – 31 December 2018	Metals $'000	Water $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue and other income				
Sales to external customers	–	2,795	28	2,823
Sales to internal customers	–	–	–	–
Other revenue	–	103	27	130
Total revenue and other income	–	2,898	55	2,953
Reportable segment (loss)/profit before tax	(496)	(1,163)	(7,457)	(9,116)
Profit/(loss) before income tax benefit				(9,116)
Income tax benefit				–
Loss after income tax benefit				(9,116)
Assets				
Segment assets	129,439	6,375	119,642	255,456
Total assets				255,456
Liabilities				
Segment liabilities	7,492	398	2,000	9,890
Total liabilities				**9,890**

Note 4. Revenue and other income

	Consolidated	
	31 Dec 2019 $'000	31 Dec 2018 $'000
Sales revenue		
Contract revenue*	(55)	2,823
Government grants	455	23
	400	2,846
Other revenue		
Other revenue	266	107
	266	107
Revenue and other income	666	2,953

* The negative balance arose as a result of credit notes being issued to customers which exceeded the value of sales receipts during the period.

Note 5. Employee benefits expenses

	Consolidated	
	31 Dec 2019 $'000	31 Dec 2018 $'000
Wages and salaries	(3,926)	(2,688)
Employee entitlements	(48)	(293)
Superannuation	(285)	(221)
Equity settled share-based payments	(1,344)	(2,182)
Other costs	(338)	(498)
	(5,941)	(5,882)

Note 6. Non-current assets – Intangibles

	Consolidated	
	31 Dec 2019 $'000	30 June 2019 $'000
Capitalised development costs – at cost	18,424	18,424
Less: Accumulated amortisation and impairments	(11,412)	(11,106)
	7,012	7,318
Patents and trademarks – at cost	713	713
Less: Accumulated amortisation and impairments	(422)	(405)
	291	308
Licence rights – at cost	4,792	4,792
Less: Accumulated amortisation and impairments	(3,051)	(3,051)
	1,741	1,741
	9,044	9,367

Note 7. Non-current assets – Exploration and evaluation assets

	Consolidated	
	31 Dec 2019 $'000	30 June 2019 $'000
At the beginning of the period	121,060	14,379
Additions:		
Feasibility Study	–	1,036
Met testwork & piloting	169	3,507
Engineering	15,571	36,407
Construction & infrastructure	414	3,101
Environment, permitting and community	1,097	798
Mining and geology	2,775	1,497
Software licences	739	374
Geotechnical	443	196
Other	3,436	5,687
R&D tax incentive on exploration asset off-set	(4,907)	(14,490)
Accrual of expenditure at period end	4,111	6,053
At end of the period	144,909	121,060

Note 8. Equity – reserves

	Consolidated	
	31 Dec 2019 $'000	30 June 2019 $'000
Share based payments reserve	15,825	14,481
	15,825	14,481

Movements in reserves

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

Consolidated	Total $'000
Balance as at 1 July 2019	14,481
Share based payments	1,344
Balance as at 31 December 2019	15,825

Note 9. Equity – dividends

Dividends

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

Note 10. Events after the reporting period

Due to the outbreak of novel coronavirus (2019-nCoV) control measures have been put in place in China limiting the movement of people. Until they are lifted, those measures are expected to result in delays to some of the Consolidated Entity's activities in China including the progress of pilot projects and CleanBio Lense manufacturing.

No other matter or circumstance has arisen since 31 December 2019 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 11. Share-based payments

Clean TeQ's approach to remuneration is to ensure that employee remuneration is closely linked to the Consolidated Entity's performance and the returns generated for shareholders. Performance-linked compensation, as outlined in the Consolidated Entity's Employee Incentive Plan ('EIP'), includes both short-term and long-term incentives, and is designed to incentivise and reward employees for meeting or exceeding Company-wide and individual objectives. The short-term incentive ('STI') is an "at risk" bonus provided in the form of cash and/or shares, while the long-term incentive ('LTI') is provided as options and performance rights over ordinary shares of the Company granted pursuant to the Company's EIP Rules which were approved by shareholders on 19 July 2017.

Note 11. Share-based payments (continued)

Performance rights are granted at the discretion of the Board to employees by way of issue at nil cost both at the time of grant and vesting. Vesting is contingent on the Company meeting or exceeding performance hurdles over the performance period. The performance hurdles involve an assessment of the Company's total shareholder returns in absolute terms and relative to Comparator Peer Group of companies. The Comparator Peer Group, which includes companies from ASX300 Metals and Mining index is selected on the basis that it presents the best fit for Clean TeQ over the coming years and is an established and 'live' index. The Comparator Peer Group is reviewed for each tranche of performance rights to ensure the group maintains ongoing relevance.

The EIP also provides for certain key executives to receive, for no consideration, options over ordinary shares of the Company at specified exercise prices as determined by the Board. The grant of options is intended to align the interests of senior executives with other owners of the Company over the medium to longer-term and to increase those senior executives' proportion of 'at risk' remuneration. The ability to exercise the options is conditional upon each key executive's ongoing employment by the Company and other applicable vesting hurdles determined by the Board from time to time.

Set out below are summaries of options granted as at 31 December 2019:

Grant date	Expiry date	Exercise price	Balance at start of year	Granted	Exercised	Expired/ forfeited/ other	Balance at end of year
15/12/2016	15/12/2019	$0.585	325,000	–	–	(325,000)	–
19/07/2017	17/02/2020	$0.770	750,000	–	–	–	750,000
07/09/2017	31/08/2020	$0.950	150,000	–	–	–	150,000
07/09/2017	31/08/2020	$0.950	200,000	–	–	–	200,000
13/11/2017	06/11/2020	$1.730	75,000	–	–	–	75,000
05/02/2018	04/12/2020	$1.800	5,000,000	–	–	–	5,000,000
02/07/2018	12/03/2021	$1.630	500,000	–	–	–	500,000
13/07/2018	19/02/2021	$1.880	1,000,000	–	–	–	1,000,000
09/08/2018	03/09/2021	$1.090	1,000,000	–	–	–	1,000,000
12/08/2019	09/08/2023	$0.530	–	9,000,000	–	–	9,000,000
			9,000,000	9,000,000	–	(325,000)	17,675,000
Weighted average exercise price:			$1.557	$0.530	–	$0.585	$1.052

The weighted average number of years for share options issued under the Plan is 3.40 years (30 June 2019: 2.80 years).

Note 11. Share-based payments (continued)

For the options granted during the current financial period, a Black-Scholes 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	Volatility	Dividend yield	Risk-free Interest rate	Fair value at grant date
12/08/2019	09/08/2023	$0.37	$0.53	81.93%	–%	1.31%	$0.196

Set out below are summaries of performance rights granted as at 31 December 2019:

Grant date	Expiry date	Exercise price	Balance at start of year	Granted	Vested	Expired/ forfeited/ Other*	Balance at end of year
16/05/2016	01/07/2019	$0.00	1,169,463	–	–	(1,169,463)	–
06/09/2016	01/07/2019	$0.00	1,292,706	–	–	(1,292,706)	–
15/08/2017	01/07/2020	$0.00	1,344,573	–	–	(24,366)	1,320,207
06/02/2018	01/01/2021	$0.00	418,662	–	–	(14,238)	404,424
06/09/2018	01/07/2021	$0.00	818,449	–	–	(33,640)	784,809
22/11/2018	01/01/2021	$0.00	100,757	–	–	–	100,757
22/11/2018	01/07/2021	$0.00	142,341	–	–	–	142,341
06/02/2019	01/01/2022	$0.00	2,652,789	–	–	(246,264)	2,406,525
16/08/2019	01/07/2022	$0.00	–	3,495,833	–	(428,702)	3,067,131
01/11/2019	01/01/2022	$0.00	–	348,742	–	–	348,742
01/11/2019	01/07/2022	$0.00	–	408,117	–	–	408,117
			7,939,740	4,252,692	–	(3,209,379)	8,983,053

*Performance rights forfeited as they did not meet the vesting conditions prior to the expiry date or due to the employee ceasing employment.

For the performance rights granted during the current financial period, a Binomial Option Valuation model was used to value the performance rights. A probability adjustment for market vesting conditions is then attached to the value of the performance rights. Each performance right, once vested, entitles the performance right holder to receive one fully paid ordinary share in the Company for zero consideration. 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	Volatility	Dividend yield	Vesting probability	Fair value at grant date
16/08/2019	01/07/2022	$0.36	77.94%	–%	50.00%	$0.141
16/08/2019	01/07/2022	$0.36	77.94%	–%	50.00%	$0.141
01/11/2019	01/01/2022	$0.23	80.14%	–%	100.00%	$0.151
01/11/2019	01/01/2022	$0.23	80.14%	–%	100.00%	$0.127
01/11/2019	01/07/2022	$0.23	77.94%	–%	100.00%	$0.152
01/11/2019	01/07/2022	$0.23	77.94%	–%	100.00%	$0.176

Directors' Declaration

For the financial half-year ended 31 December 2019

In the opinion of the directors of Clean TeQ Holdings Limited ("the Company") and it's controlled entities ("the Consolidated Entity"):

(a) the consolidated financial statements and notes set out on pages 6 to 18, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2019 and of its performance, for the six-month period ended on that date; and

(ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company and the Consolidated Entity will be able to pay their debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

On behalf of the directors

Sam Riggall
Managing Director and Chief Executive Officer

20 February 2020
Melbourne

Independent Auditor's Review Report

To the shareholders of Clean TeQ Holdings Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Clean TeQ Holdings Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Clean TeQ Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Consolidated Entity's*** financial position as at 31 December 2019 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Half-year Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2019
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date
- Notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Consolidated Entity*** comprises Clean TeQ Holdings Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.

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KPMG

Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Clean TeQ Holdings Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

KPMG

Tony Romeo

Partner

Melbourne

20 February 2020

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Corporate Directory

31 December 2019

Directors

Robert Friedland (Co-Chairman and Non-Executive Director)

Jiang Zhaobai (Co-Chairman and Non-Executive Director)

Sam Riggall (Managing Director and Chief Executive Officer)

Judith Downes (Non-Executive Director)

Eric Finlayson (Non-Executive Director)

Ian Knight (Non-Executive Director)

Stefanie Loader (Lead Independent Non-Executive Director)

Michael Spreadborough (Non-Executive Director)

Company Secretary

Melanie Leydin

Principal Place of Business & Registered Office

Unit 12, 21 Howleys Road
Notting Hill, Victoria, 3168

Telephone: +61 3 9797 6700

Share Register

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Yarra Falls, 452 Johnson Street
Abbottsford, Victoria, 3067

Telephone: +61 3 9415 5000

Auditors

KPMG
Tower 2, Collins Place
727 Collins Street
Docklands, Victoria 3008

Legal Advisors

Baker & McKenzie
Level 19, 181 William Street
Melbourne, Victoria 3000

Stock Exchange Listing

Clean TeQ Holdings Limited shares are listed on
the Australian Securities Exchange (ASX: CLQ)
Toronto Stock Exchange (TSX: CLQ) and
OTCQX Market in the United States (OTCQX: CTEQF)

Website

www.cleanteq.com

CLEAN TEQ

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