

CleanTeQ Holdings Limited

ABN 34 127 457 916

Half-year Financial Report - 31 December 2013

CleanTeQ Holdings Limited

Contents

31 December 2013

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CleanTeQ Holdings Limited
Corporate directory
31 December 2013

| | |
|-----------------------------|---|
| 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 VIC 3168 |
| Principal place of business | 296 Ferntree Gully Road Notting Hill VIC 3168 |
| 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
31 December 2013

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 'company' or 'parent entity') and the entities it controlled for the half-year ended 31 December 2013, along with the review report thereon.

Directors

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

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, resigned 21 November 2013)

Principal activities

During the financial half-year the principal 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. A licence for the use of the proprietary CIF™ technology is held and operated by Associated Water Pty Ltd, a Joint Venture with Nippon Gas Co. Ltd, for the recovery of clean water in the coal seam gas industry in Australia. The consolidated entity holds a 50% stake in the Joint Venture; 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 half-year.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$2,468,000 (31 December 2012: \$1,984,000).

Financial review of operations

During the financial period the consolidated entity's revenues increased from \$3.88 million to \$4.52 million, compared to the comparative 2012 period, due generally to higher operating revenues as a number of large projects reached their conclusions. During the financial period the consolidated entity recorded losses from continuing operations of \$2.47 million before tax (2012: \$3.19 million loss), with the decrease in loss due to the higher revenues and improved operating efficiencies. The after tax loss for the current financial period of \$2.47 million is higher than the previous period's after tax loss of \$1.98 million, but the previous period's result was improved by non-recurrent items, being an income tax benefit of \$0.62 million and a profit from disposal of discontinued operations of \$0.58 million.

The Air Division revenue grew from \$2.9 million to \$4.17 million, as a number of large, high value projects reached final stages of delivery. Importantly, during the current period, projects were delivered efficiently and on time, resulting in relatively lower costs and better profitability compared to the corresponding period last year. The revenue in the Water Purification and Resource Recovery Divisions remained low but the key emphasis for these divisions remained technology development and pursuit of revenue-generating opportunities. In the water area, the focus was on developing commercial opportunities for the consolidated entity's technology to treat coal seam gas water and waste waters from mining; whilst the resources area continued its development work on the extraction and purification of scandium. These areas are anticipated to produce substantial revenues in the future.

The continuing development of the entity's technologies resulted in \$0.42 million of expenditure being capitalised into intangible assets during the year. This expenditure, along with the net cash outflows from operating activities of \$1.5 million was financed largely by the issuance of long term convertible notes of \$1.7m million to Mr Robert Friedland and \$0.5 million to Mr Sam Riggall, the company's Chairman. These new convertible notes contributed to an increase in the entity's financing costs compared to the 2012 comparative period. A further \$0.41 million was raised from existing shareholders by way of a share purchase plan. Funding inflows also enabled the entity to repay \$0.53 million of existing debts.

CleanTeQ Holdings Limited
Directors' report (continued)
31 December 2013

As a result of the above, the consolidated entity's net assets decreased during the period by \$1.915 million to \$9.280 million (30 June 2013: \$11.195 million). Working Capital, being current assets less current liabilities, amounts to a \$1.047 million surplus (30 June 2013: \$1.252 million deficit, or \$0.589 million surplus excluding convertible notes then classified as current liabilities), with cash reserves increasing from \$1.08 million to \$1.13 million during the period.

A full review of operations has been included in the CEO report released in conjunction with this report.

Significant changes in the state of affairs

On 2 August 2013 the consolidated entity 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. The price of each convertible note was \$0.10 (10 cents), and the issue raised a total of \$1,731,787 before costs.

On 8 November Clean TeQ issued 5,563,757 fully paid ordinary shares at \$0.074 (7.4 cents) per share in accordance with the Company's Share Purchase Plan, which was announced on 23 September 2013), and the issue raised a total of \$411,718 before costs.

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.

On 5 December 2013 the Company 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 conversion price is \$0.10 (10 cents), and the notes accrue interest of 10% per annum. The notes are unsecured and mature on 20 November 2015.

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

Events subsequent to reporting date

During January 2014, the consolidated entity agreed to purchase the 50% shareholding of Associated Water Pty Ltd ("AW") that the consolidated entity did not already own from its existing owner, Nippon Gas Company, for a purchase price of \$2 million. \$1 million of the purchase price is payable by 31 August 2014 and the remaining \$1 million is payable by 31 May 2015. The consolidated entity also agreed to purchase the 85% shareholding of Clean World Japan Ltd ("CWJ") that the consolidated entity did not already own from its existing owner, Nippon Gas Company, for a purchase price of \$1. These purchases shall be settled after 31 December 2013, at which time AW and CWJ shall become wholly-owned subsidiaries of the company and part of the consolidated entity.

Other than the above items, no matters or circumstances have arisen since 31 December 2013 which 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 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.

Auditor's independence declaration

The lead auditor's independence declaration is set out on the following page and forms part of the directors' report for the half-year ended 31 December 2013.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Ian Knight
Director

26 February 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 review for the half-year ended 31 December 2013 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

KPMG

Tony Batsakis
Partner

Melbourne

26 February 2014

CleanTeQ Holdings Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2013

| | | Consolidated | |
|--|-------------|-------------------------|-------------------------|
| | | 31 December 2013 | 31 December 2012 |
| | Note | \$'000 | \$'000 |
| Revenue from continuing operations | 5 | 4,519 | 3,880 |
| Share of losses of joint ventures accounted for using the equity method | 6 | (283) | (204) |
| Expenses | | | |
| Raw materials, other direct costs and changes in finished goods | | (3,173) | (4,127) |
| Employee benefits expenses | | (1,935) | (1,528) |
| Depreciation and amortisation expenses | | (346) | (241) |
| Legal and professional expenses | | (302) | (378) |
| Occupancy expenses | | (128) | (105) |
| Marketing expenses | | (153) | (137) |
| Other expenses | | (427) | (337) |
| Finance costs | | (240) | (11) |
| Loss before income tax benefit from continuing operations | | (2,468) | (3,188) |
| Income tax benefit | | - | 622 |
| Loss after income tax benefit from continuing operations | | (2,468) | (2,566) |
| Profit after income tax (expense)/benefit from discontinued operations | 7 | - | 582 |
| Loss after income tax expense for the half-year attributable to the owners of CleanTeQ Holdings Limited | | (2,468) | (1,984) |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified subsequently to profit or loss</i> | | | |
| Foreign currency translation differences for foreign operations | | - | 1 |
| Other comprehensive income for the half-year, net of tax | | - | 1 |
| Total comprehensive income for the half-year attributable to the owners of CleanTeQ Holdings Limited | | (2,468) | (1,983) |
| Total comprehensive income for the half-year is attributable to: | | | |
| Continuing operations | | (2,468) | (1,983) |
| Discontinuing operations | | - | - |
| | | (2,468) | (1,983) |

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 half-year ended 31 December 2013

| | Consolidated | |
|--|-------------------------|-------------------------|
| | 31 December 2013 | 31 December 2012 |
| | \$'000 | \$'000 |
| | Cents | Cents |
| Earnings per share from continuing operations attributable to the owners of CleanTeQ Holdings Limited | | |
| Basic earnings per share | (1.70) | (1.78) |
| Diluted earnings per share | (1.70) | (1.78) |
| Earnings per share from discontinued operations attributable to the owners of CleanTeQ Holdings Limited | | |
| Basic earnings per share | - | 0.40 |
| Diluted earnings per share | - | 0.40 |
| Earnings per share from profit attributable to the owners of CleanTeQ Holdings Limited | | |
| Basic earnings per share | (1.70) | (1.38) |
| Diluted earnings per share | (1.70) | (1.38) |

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 31 December 2013

| | | Consolidated | |
|---|-------------|---------------------|---------------------|
| | | 31 December | 30 June 2013 |
| | Note | 2013 | \$'000 |
| | | \$'000 | \$'000 |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 1,132 | 1,081 |
| Trade and other receivables | | 973 | 3,717 |
| Inventories | | 1,306 | 1,625 |
| Income tax receivable | | 692 | 683 |
| Other financial assets | | 162 | 121 |
| Total current assets | | <u>4,265</u> | <u>7,227</u> |
| Non-current assets | | | |
| Investments accounted for using the equity method | | 1,601 | 1,884 |
| Other financial assets | | 261 | 169 |
| Plant and equipment | | 296 | 372 |
| Intangible assets | | 10,192 | 10,068 |
| Total non-current assets | | <u>12,350</u> | <u>12,493</u> |
| Total assets | | <u>16,615</u> | <u>19,720</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | | 1,010 | 3,799 |
| Borrowings – convertible notes payable | 8(a) | - | 1,841 |
| Borrowings – other | 8(a) | 1,192 | 1,732 |
| Employee benefits | | 285 | 259 |
| Other | | 732 | 848 |
| Total current liabilities | | <u>3,219</u> | <u>8,479</u> |
| Non-current liabilities | | | |
| Borrowings – convertible notes payable | 8(b) | 4,072 | - |
| Borrowings – other | 8(b) | 18 | 17 |
| Employee benefits | | 26 | 29 |
| Total non-current liabilities | | <u>4,116</u> | <u>46</u> |
| Total liabilities | | <u>7,335</u> | <u>8,525</u> |
| Net assets | | <u>9,280</u> | <u>11,195</u> |
| Equity | | | |
| Issued capital | 9 | 13,545 | 13,149 |
| Reserves | 10 | 225 | 91 |
| Accumulated losses | | <u>(4,490)</u> | <u>(2,045)</u> |
| Total equity | | <u>9,280</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
As at 31 December 2013

| Consolidated | Contributed equity \$'000 | Retained earnings \$'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 half-year | - | (1,984) | - | (1,984) |
| Other comprehensive income for the half-year, net of tax | - | - | 1 | 1 |
| Total comprehensive income for the half-year | - | (1,984) | 1 | (1,983) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Share-based payments | - | - | 79 | 79 |
| Balance at 31 December 2012 | <u>13,151</u> | <u>422</u> | <u>270</u> | <u>13,843</u> |
| 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 half-year | - | (2,468) | - | (2,468) |
| Other comprehensive income for the half-year, net of tax | - | - | - | - |
| Total comprehensive income for the half-year | - | (2,468) | - | (2,468) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Contributions of equity, net of transaction costs (note 9) | 380 | - | - | 380 |
| Share-based payments (notes 9, 10, 18) | 16 | - | 157 | 173 |
| Lapse of options (note 10) | - | 23 | (23) | - |
| Balance at 31 December 2013 | <u>13,545</u> | <u>(4,490)</u> | <u>225</u> | <u>9,280</u> |

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 half-year ended 31 December 2013

| | Consolidated | |
|---|-------------------------|-------------------------|
| | 31 December 2013 | 31 December 2012 |
| | \$'000 | \$'000 |
| Cash flows from operating activities | | |
| Receipts from customers | 7,657 | 4,182 |
| Payments to suppliers | (8,929) | (6,404) |
| Interest received | 26 | 22 |
| Interest and other finance costs paid | (219) | (7) |
| Net cash used in operating activities | (1,465) | (2,207) |
| Cash flows from investing activities | | |
| Payments for property, plant and equipment | (6) | (38) |
| Development expenditure | (420) | (814) |
| Proceeds from sale of business | - | 1,373 |
| Net cash from/(used in) investing activities | (426) | 521 |
| Cash flows from financing activities | | |
| Proceeds from issue of shares | 412 | - |
| Proceeds from issue of convertible notes | 2,232 | - |
| Payments in respect of issuing equity instruments | (32) | - |
| Proceeds from borrowings | - | 1,000 |
| Payments for cash on deposit for security over bank guarantees | (131) | (177) |
| Repayment of borrowings | (529) | - |
| Repayment of finance lease | (10) | (13) |
| Net cash from financing activities | 1,942 | 810 |
| Net increase/(decrease) in cash and cash equivalents | 51 | (876) |
| Cash and cash equivalents at the beginning of the financial half-year | 1,081 | 1,454 |
| Cash and cash equivalents at the end of the financial half-year | 1,132 | 578 |

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

CleanTeQ Holdings Limited
Notes to the financial statements
31 December 2013

Note 1. General information

The financial report covers CleanTeQ Holdings Limited as a consolidated entity consisting of CleanTeQ Holdings Limited and the entities it controlled ("the consolidated entity" or "Group"). The financial report is presented in Australian dollars, which is CleanTeQ Holdings Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

CleanTeQ Holdings Limited is a 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
VIC 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 report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 26 February 2014. The directors have the power to amend and reissue the financial report.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2013 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 2013 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.

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.

Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

During the current period the consolidated entity modified the statement of profit or loss and other comprehensive income classification of administration and employment-related expenses to better reflect the nature of certain significant expenses. Comparative amounts in the consolidated statement of profit or loss and other comprehensive income were reclassified for consistency. This resulted in \$600,000 of administration and employment-related expenses being reclassified into legal and professional expenses (\$378,000), occupancy expenses (\$105,000), marketing expenses (\$63,000) and other expenses (\$54,000).

Since the amounts are reclassified within operating activities in the consolidated statement of profit or loss and other comprehensive income, this reclassification did not have any impact on the consolidated statement of financial position.

Note 2. Significant accounting policies (continued)

Classification of convertible notes

As at 30 June 2013, convertible notes with a value of \$1,840,612 were classified as current liabilities. As at 31 December 2013, as a result of certain conditions being met, the convertible notes in existence at 30 June 2013 and the convertible notes issued by the company during the financial half-year were, in accordance with accounting standard AASB 101 Presentation of Financial Statements, classified as non-current liabilities as their maturity dates fall more than twelve months after reporting date and they are not expected to become due and payable during the next twelve months.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

The consolidated entity has applied AASB 10 *Consolidated Financial Statements* from 1 July 2013. AASB 10 supersedes AASB 127 Consolidated and Separate Financial Statements and Interpretation 112 Consolidation – Special Purpose Entities. AASB 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with AASB 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the consolidated entity's investees held during the period or comparative periods covered by these financial statements.

The consolidated entity has applied AASB 11 *Joint Arrangements* from 1 July 2013. Under AASB 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting. Management has determined that Associated Water Pty Ltd ("AW"), being a joint arrangement over which the consolidated entity and Nippon Gas Company ("the joint venturers") have joint control, is a joint venture, as the joint venturers have rights to the net assets of the arrangement. Pursuant to AASB 11, the consolidated entity accounts for its investment using the equity method, which is the same method previously used by the consolidated entity.

Going concern

The financial report has been prepared on the 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 working capital position as at 31 December 2013 of the consolidated entity results in an excess of current assets over current liabilities of \$1.046 million (30 June 2013: \$1.25 million deficit). The consolidated entity made a loss after tax of \$2,468,000 during the financial half-year (2012: \$2,566,000 from continuing operations) and the net operating cash outflow was \$1.465 million (2012: \$2.207 million net outflow). The cash balance as at 31 December 2013 was \$1.132 million (30 June 2013: \$1.081 million).

Operating losses incurred were mainly due to a continuation of expenditures in development, commercialisation and marketing activities that exceeded project and other income earned, including additional finance costs resulting from an increase in borrowings principally from convertible notes issued.

During and subsequent to the half year ended to 31 December 2013, the following events have taken place to support the going concern basis of accounting of this half year financial report:

Note 2. Significant accounting policies (continued)

Going concern (continued)

- the consolidated entity raised additional funds by way of two separate convertible note issuances (\$2.232 million) and the issuance of equity (\$0.38 million, net of issuance costs), which improved the consolidated entity's cash reserves;
- operational improvements were implemented in respect of the execution of projects in the air division, including cost control and overall project delivery;
- as set out in note 17, the consolidated entity has announced 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 plans to carry out a funding round by way of a capital raising as and when required to fund its short term working capital and other funding requirements; and
- 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.

Whilst the directors are confident in the consolidated entity's ability to continue as a going concern, in the event the capital raising initiatives and commercial opportunities described above do not eventuate as planned, there is 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.

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, extinguish liabilities at amounts different to those recorded in the balance sheet and settle liabilities other than in the ordinary course of business.

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.

In preparing the consolidated interim financial report, the significant judgments made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2013.

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.

Note 4. Operating segments (continued)

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 gross profit as included in the internal management reports that are reviewed by the consolidated entity's CEO. Segment gross profit 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.

Operating segment information

| | Air Purification | Resource Recovery | Water Purification | Intersegment eliminations/ unallocated | Total |
|--|---------------------|----------------------|-----------------------|--|----------------|
| Consolidated - 31 December 2013 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue | | | | | |
| Sales to external customers | 4,166 | - | 91 | 140 | 4,397 |
| Other revenue | - | - | - | 96 | 96 |
| Interest | - | - | - | 26 | 26 |
| Total revenue | 4,166 | - | 91 | 262 | 4,519 |
| Reportable segment (loss)/profit before tax | 1,246 | - | (183) | (3,531) | (2,468) |
| Profit/(loss) before income tax expense | | | | | (2,468) |
| Income tax expense | | | | | - |
| Profit/(loss) after income tax expense | | | | | (2,468) |
| Assets | | | | | |
| Segment assets | 1,362 | 4,832 | 7,419 | 3,002 | 16,615 |
| Total assets | | | | | 16,615 |

CleanTeQ Holdings Limited
Notes to the financial statements
31 December 2013

Note 4. Operating segments (continued)

| | Air Purification | Resource Recovery | Water Purification | Intersegment eliminations/ unallocated | Total |
|--|---------------------|----------------------|-----------------------|--|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Consolidated - 31 December 2012 | | | | | |
| Revenue | | | | | |
| Sales to external customers | 2,892 | - | 581 | 384 | 3,857 |
| Other revenue | - | - | - | 1 | 1 |
| Interest | - | - | - | 22 | 22 |
| Total revenue | <u>2,892</u> | <u>-</u> | <u>581</u> | <u>407</u> | <u>3,880</u> |
| Reportable segment (loss)/profit before tax | <u>(873)</u> | <u>-</u> | <u>167</u> | <u>(2,482)</u> | <u>(3,188)</u> |
| Profit on disposal of discontinued operations | | | | | 582 |
| Profit/(loss) before income tax benefit | | | | | <u>(2,606)</u> |
| Income tax benefit | | | | | 622 |
| Profit/(loss) after income tax benefit | | | | | <u>(1,984)</u> |
| Consolidated - 30 June 2013 | | | | | |
| Assets | | | | | |
| Segment assets | 780 | 3,764 | 7,928 | 7,248 | 19,720 |
| Total assets | | | | | <u>19,720</u> |

The magnitude of the unallocated portion of the segment results is a result of the consolidated entity incurring a significant amount of expenses that cannot be directly attributable on a reasonable basis to any one segment.

There have been no material changes in segment assets during the current period and since the year ended 30 June 2013.

Note 5. Revenue

| | Consolidated | |
|---|-------------------------|-------------------------|
| | 31 December 2013 | 31 December 2012 |
| | \$'000 | \$'000 |
| From continuing operations | | |
| <i>Sales revenue</i> | | |
| Contract revenue | 4,374 | 3,486 |
| Government grants | 23 | - |
| | <u>4,397</u> | <u>3,486</u> |
| <i>Other revenue</i> | | |
| Interest | 26 | 22 |
| Other revenue | 96 | 372 |
| | <u>122</u> | <u>394</u> |
| Revenue from continuing operations | <u><u>4,519</u></u> | <u><u>3,880</u></u> |

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

| | Consolidated | |
|---|-------------------------|-------------------------|
| | 31 December 2013 | 31 December 2012 |
| | \$'000 | \$'000 |
| Share of profit/(loss) - joint ventures | (283) | (204) |

Refer to note 16 for details of the company's interests in joint ventures.

Note 7. Discontinued operations

Description

On 28 June 2012, the company executed a contract to sell 100% of its shares in UV Guard Australia Pty Ltd. The contract was completed on 19 July 2012, with the sale effective from 1 July 2012. The company received \$1,350,000 plus inventory on hand as consideration for the sale.

Financial performance information

| | Consolidated | |
|--|-------------------------|-------------------------|
| | 31 December 2013 | 31 December 2012 |
| | \$'000 | \$'000 |
| Gain on disposal before income tax | - | 582 |
| Income tax expense | - | - |
| Gain on disposal after income tax expense | - | 582 |
| Profit after income tax (expense)/benefit from discontinued operations | - | 582 |

Cash flow information

| | Consolidated | |
|------------------------------------|-------------------------|-------------------------|
| | 31 December 2013 | 31 December 2012 |
| | \$'000 | \$'000 |
| Net cash from investing activities | - | 1,373 |

Note 8. Liabilities - borrowings

| | Consolidated | |
|---------------------------|-------------------------|---------------------|
| | 31 December 2013 | 30 June 2013 |
| | \$'000 | \$'000 |
| (a) Current | | |
| Convertible notes payable | - | 1,841 |
| Borrowings - other | | |
| Loans | 1,171 | 1,700 |
| Hire purchase | 21 | 32 |
| | 1,192 | 1,732 |

Note 8. Current liabilities - borrowings (continued)

(b) Non-current

| | | |
|---------------------------|-------|----|
| Convertible notes payable | 4,072 | - |
| Borrowings - other | | |
| Hire purchase | 18 | 17 |

(c) Convertible notes

On 21 May 2013 the consolidated entity issued 18,406,116 unlisted 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 were issued with an interest rate of 10% and a maturity date of 20 May 2016. The notes are unsecured and can be converted to equity at any time prior to the maturity date at the request of the note holder at \$0.10 (10 cents) per share.

On 2 August 2013 the consolidated entity 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. The price of each convertible note was \$0.10 (10 cents), and the issue raised a total of \$1,731,787 before costs. The notes are unsecured and can be converted to equity at any time.

On 21 November 2013 the Company issued 5,000,000 unlisted convertible notes at \$0.10 (10 cents) per note, raising \$500,000 for working capital purposes. The conversion price is \$0.10 (10 cents), and the notes accrue interest of 10% per annum. The notes are unsecured and mature on 20 November 2015, and they can be converted to equity at any time. The notes were issued to Sam Riggall, Chairman and Non-Executive Director of the Company on terms that are considered to be normal market terms.

The respective agreements for the above convertible notes provide that the notes are repayable to the noteholders on demand if a "default event" occurs. Default events include: the company or its directors deciding to undertake a transaction which will, or is reasonably likely to, result in a person acquiring voting power of 50% or more in the company; and events which may have a material adverse effect on the company's financial condition, business or assets.

Note 9. Equity - issued capital

| | Consolidated | | | |
|------------------------------|-------------------------------|------------------------|-------------------------------|------------------------|
| | 31 December 2013 Shares | 30 June 2013 Shares | 31 December 2013 \$'000 | 30 June 2013 \$'000 |
| Ordinary shares - fully paid | 149,520,775 | 143,793,514 | 13,545 | 13,149 |

Movements in ordinary share capital

| Details | Date | No of shares | Issue price | \$'000 |
|---|------------------|--------------|-------------|--------|
| Balance | 1 July 2013 | 143,793,514 | | 13,149 |
| Shares issued in accordance with Employee Tax Exempt Share Plan | 5 November 2013 | 163,504 | \$0.10 | 16 |
| Shares issued under Share Purchase Plan | 8 November 2013 | 5,563,757 | \$0.074 | 412 |
| Costs of issuing equity | | - | | (32) |
| Balance | 31 December 2013 | 149,520,775 | | 13,545 |

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.

Note 9. Equity - issued capital (continued)

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.

Note 10. Equity - reserves

| | Consolidated | |
|------------------------------|---------------------|---------------------|
| | 31 December | 30 June 2013 |
| | 2013 | 2013 |
| | \$'000 | \$'000 |
| Share-based payments reserve | 225 | 91 |

Movements in reserves

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

| | Share based payments \$'000 | Total \$'000 |
|--|--|-------------------------|
| Consolidated | | |
| Balance at 1 July 2013 | 91 | 91 |
| Lapsed options transferred to accumulated losses | (23) | (23) |
| Share based payments | 157 | 157 |
| Balance at 31 December 2013 | 225 | 225 |

Note 11. Equity - dividends

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

Note 12. Contingent liabilities

The consolidated entity had no contingent liabilities at 31 December 2013 or 30 June 2013.

Note 13. Commitments

| | Consolidated | |
|---|---------------------|---------------------|
| | 31 December | 30 June 2013 |
| | 2013 | 2013 |
| | \$'000 | \$'000 |
| <i>Lease commitments - operating</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 175 | 158 |
| One to five years | 777 | 158 |
| More than five years | 139 | - |
| | 1,091 | 316 |

There is no material change to the commitments since those disclosed in the financial report for the year ended 30 June 2013, with the exception of the following:

Note 13. Commitments (continued)

(a) Previous property lease

The consolidated entity cancelled its existing property lease with effect from 7 January 2014. It was not required to make any further lease payments after the cancellation date.

(b) New property lease

Prior to 31 December 2013, the consolidated entity agreed to enter into a new lease of premises to commence on 6 January 2014. The lease is a non-cancellable lease, with rent payable monthly in advance. The lease payments shall increase by 3.25% annually. The consolidated entity may sublet all leased areas, subject to the consent of the landlord and head lessor. The lease expires on 31 August 2019 and there is no additional term.

Note 14. Related party transactions

Parent entity

CleanTeQ Holdings Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 15.

Joint ventures

Interests in joint ventures are set out in note 16.

Transactions with related parties

All related party transactions are completed on normal commercial terms and conditions in accordance with consultancy services and administration service agreements.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

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

| | Consolidated | |
|------------------------------------|---------------------|---------------------|
| | 31 December | 30 June 2013 |
| | 2013 | |
| | \$ | \$ |
| Current borrowings: | | |
| Loan from Associated Water Pty Ltd | 676,200 | 1,000,000 |
| Loan from Toll Associates Pty Ltd | 495,000 | 700,000 |

Associated Water Pty Ltd is a company in which CleanTeQ Holdings Limited is a joint venture partner.

Toll Associates Pty Ltd is a company in which Greg Toll, a former director of CleanTeQ Holdings Ltd, is an owner and director.

Terms and conditions

The loan advanced by Associated Water is a short term unsecured loan, with an interest rate of 9.08%. The loan from Toll Associates Pty Ltd is also 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. All loans are payable within one year.

Note 15. 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 of the 30 June 2013 Financial Report:

| Name | Country of incorporation | Ownership interest | |
|--------------------------------------|--------------------------|--------------------|----------------|
| | | 31 December 2013 % | 30 June 2013 % |
| Clean TeQ Limited | Australia | 100.00% | 100.00% |
| Resix Pty Ltd | Australia | 100.00% | 100.00% |
| CT Global Holdings Pty Ltd * | Australia | 100.00% | 100.00% |
| LiXiR Functional Foods Pty Ltd * | Australia | 100.00% | 100.00% |
| Clean TeQ Water Pty Ltd * | Australia | 100.00% | 100.00% |
| Clean TeQ Resin Production Pty Ltd** | Australia | -% | 90.00% |

* Prior to 31 December 2013, application was made to deregister these entities, which did not trade during the current financial period, nor the financial year ended 30 June 2013. Deregistrations are expected to be completed in early 2014.

** Clean TeQ Resin Production Pty Ltd was deregistered on 31 July 2013.

Note 16. 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 | |
|--------------------------|--|--------------------|----------------|
| | | 31 December 2013 % | 30 June 2013 % |
| Associated Water Pty Ltd | Water purification | 50.00% | 50.00% |

Subsequent to 31 December 2013 the consolidated entity acquired the remaining 50% shareholding in Associated Water Pty Ltd from the joint venture partner Nippon Gas Company. Refer to note 17.

During the prior period the consolidated entity received a loan from Associated Water Pty Ltd in the amount of \$1,000,000. At 31 December 2013 the balance of the loan was \$676,200. The loan is to be repaid at a mutually agreed time, not more than twelve months from 31 December 2013, and is interest bearing (9.08%). The loan has been agreed on commercial terms. The loan has been classified as a current liability.

Note 17. Events after the reporting period

During January 2014, the consolidated entity agreed to:

- purchase the 50% shareholding of Associated Water Pty Ltd ("AW") that the consolidated entity did not already own from its existing owner, Nippon Gas Company, for a purchase price of \$2 million. \$1 million of the purchase price is payable by 31 August 2014 and the remaining \$1 million payable by 31 May 2015; and
- purchase the 85% shareholding of Clean World Japan Ltd ("CWJ") that the consolidated entity did not already own from its existing owner, Nippon Gas Company, for a purchase price of \$1.

These purchases shall be settled after 31 December 2013, at which time AW and CWJ shall become wholly-owned subsidiaries of the company and part of the consolidated entity.

Note 17. Events after the reporting period (continued)

No other matter or circumstance has arisen since 31 December 2013, not otherwise disclosed in these financial statements or the accompanying directors' report, 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 18. Share-based payments

During November 2013 the Board approved the issue of 163,504 shares options to the eligible employees of the Company pursuant to the Company's employee share plan.

During November 2013 the Board approved the issue of 4,000,000 unlisted share options to the Company's newly-appointed Chief Executive Officer, Mr Cory Williams. The options expire on 30 November 2018 and comprise 3 tranches with different share price vesting hurdles. The options were issued in January 2014.

The Binomial Option Pricing Model was used to value the options. The valuation model inputs used to determine the fair value of the options are:

| Grant date | Expiry date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|------------|-------------|---------------------------|----------------|---------------------|----------------|-------------------------|--------------------------|
| 21/11/2013 | 30/11/2018 | \$0.06 | \$0.10 | 99.66% | -% | 4.60% | \$0.041 |
| 21/11/2013 | 30/11/2018 | \$0.06 | \$0.10 | 99.66% | -% | 4.60% | \$0.039 |
| 21/11/2013 | 30/11/2018 | \$0.06 | \$0.10 | 99.66% | -% | 4.60% | \$0.037 |

CleanTeQ Holdings Limited
Directors' declaration
31 December 2013

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Ian Knight', with a large, sweeping initial 'I' and a stylized 'K'.

Ian Knight
Director

26 February 2014
Melbourne



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

We have reviewed the accompanying half-year financial report of Clean TeQ Holdings Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2013, consolidated statement of 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 18 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 half-year's end or from time to time during the half-year.

Directors' responsibility 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* and for 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.

Auditor's responsibility

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 Group's financial position as at 31 December 2013 and its performance for the half-year period 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.

Independence

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



Conclusion

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:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the half-year period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter

Without modifying our conclusion we draw attention to Note 2 under the heading "Going Concern" which indicates that the Group incurred a net loss after tax of \$2,468,000 during the half-year ended 31 December 2013. This condition, 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.

KPMG

Tony Batsakis
Partner

Melbourne

26 February 2014