

Clean TeQ Holdings Limited

ABN 34 127 457 916

Half-year Financial Report - 31 December 2014

Clean TeQ Holdings Limited
Contents
31 December 2014

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Clean TeQ Holdings Limited
Corporate directory
31 December 2014

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

Clean TeQ Holdings Limited
Directors' report
31 December 2014

The directors present their report, together with the financial statements, on the Consolidated Entity (referred to hereafter as the 'Consolidated Entity') consisting of Clean TeQ Holdings Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2014.

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:

Sam Riggall (Chairman, Executive Director and Interim Chief Executive Officer)
Peter Voigt (Executive Director)
Roger Harley (Independent Non-Executive Director)
Ian Knight (Independent Non-Executive Director)

Principal activities

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

- Providing air purification and odour elimination solutions to customers;
- The continued development and use of the Clean-iX® and proprietary CIF Technologies in conjunction with other technologies, which can be used for the purification and recycling of waste water and for desalination of brackish water to produce high quality industrial water; and
- The continued development and use of the Clean-iX® Technology which can be used to extract a range of resources in the mining industry including base metals, precious metals and rare earth 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 attributable to owners of the Consolidated Entity amounted to \$2.293 million (31 December 2013: \$2.468 million).

During the half year ended 31 December 2014 the Consolidated Entity's revenues decreased from \$4.519 million to \$3.913 million, compared to the comparative 2013 period, due to generally lower levels of project activity in the Group's Air Purification business. During the financial period the Consolidated Entity recorded losses from continuing operations of \$2.261 million before tax compared to the \$2.468 million loss incurred in the comparative 2013 period.

The Air Purification business revenue decreased from \$4.166 million to \$3.597 million, reflecting the flow on effect of a lull in the awarding of contracts during the 2013 financial year, which generated a 12 - 18 month lag in decreased project delivery activity. Nevertheless, during the current period, projects continued to be delivered efficiently and on time, resulting in maintained direct project profitability. The overall net profit for the Air Purification business appears to be lower than the prior year period, however this is due mainly to changes in the accounting and reporting processes within the Group, whereby the Air business, which now carries on its activities within a separate company with the Group, bears a full apportionment of overhead and management costs which were previously borne by the Group's head office department.

The revenue in the Water Purification and Resource Recovery Divisions remained low but the key emphasis for these divisions continued to be 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 waste waters, with increased emphasis on opportunities in the large Chinese market via the Group's developing relationship with Shanghai Investigation, Design & Research Institute Co. Ltd (SIDRI), an affiliate of China Three Gorges Corporation. The Resource Recovery Division continued its development work on the extraction and purification of scandium, both from titanium dioxide process streams and from mining activities. These Divisions are anticipated to produce substantial revenues in the future. Of particular importance was the delivery of a scandium recovery pilot plant to Ishihara Sangyo Kaisha, Ltd's (ISK) facility in Japan for completion of a scandium recovery pilot trial.

The continuing development of the Consolidated Entity's technologies resulted in \$0.41 million of expenditure being capitalised into intangible assets during the half year ended 31 December 2014. This expenditure, along with the net cash outflows from operating activities of \$2.330 million was financed largely by capital raisings totalling \$3.517 million after issue costs.

Clean TeQ Holdings Limited
Directors' report
31 December 2014

As a result of the above, the Consolidated Entity's net assets increased during the period by \$3.032 million to \$14.112 million (30 June 2014: \$11.080 million). Working Capital, being current assets less current liabilities, amounts to a \$1.858 million surplus (30 June 2014: \$0.534 million surplus), with cash reserves increasing from \$2.540 million to \$3.511 million during the period.

Dividends

There were no dividends paid, recommended or declared during the current period or previous corresponding period.

Significant changes in the state of affairs

In August 2014, the Company and Nippon Gas Co Limited (NGC) agreed to modify the payment terms for the Company to purchase NGC's 50% share of the Associated Water Joint Venture and NGC's 85% share of Clean World Japan. The original payment terms of \$1 million payable in August 2014 and \$1 million in May 2015 were modified to an initial \$100,000 payment by Clean TeQ in August 2014 with a further \$2.3 million payment (including interest) in September 2015.

On 18 September 2014 the Company announced the issue of 18,685,714 fully paid ordinary shares at \$0.07 (7 cents) per share via a private placement. The issue raised a total of \$1.308 million before costs of issue.

In October 2014 the Company announced the merger of the air treatment business carried on by its subsidiary company Clean TeQ Air Pty Ltd ("Air") and the Australian air treatment business of Aromatrix Technologies by way of any acquisition by Air of the Aromatrix air business. The acquisition was completed on 1 December 2014 (refer to Note 18 for details).

On 20 October 2014 the Company announced that it had signed a Heads of Agreement with SIDRI for the deployment of the Company's proprietary water treatment technologies in China. The Heads of Agreement provides for a stepwise approach to a collaborative partnership in China. It provides for the establishment of a joint venture which will be established by the Company and SIDRI on the completion of a commercial trial demonstrating the technical and commercial viability of the Company's ion exchange technologies. Commercial trial projects have been selected by the parties, with design and engineering work underway.

The Company's Chief Executive Officer, Mr Cory Williams, resigned on 18 November 2014. The Company's Chairman, Mr Sam Riggall, agreed to accept the role of Interim Chief Executive Officer and continues in that role at the date of this report.

On 24 November 2014, the Company announced that it had entered into an agreement to acquire the Syerston scandium project in New South Wales, with a view to applying the Company's technology to economically produce scandium oxide at the project site. Completion of the acquisition is subject to a number of conditions, some of which are still to be completed at the date of this report.

On 12 December 2014 the Company announced the issue of 37,500,000 fully paid ordinary shares at a price \$0.06 (6 cents) per share via a private placement to professional and sophisticated investors. The issue raised a total of \$2.25 million before costs of the issue.

There were no other 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

No matter or circumstance has arisen since 31 December 2014 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

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 page 6 and forms part of the directors' report for the half-year ended 31 December 2014.

Clean TeQ Holdings Limited
Directors' report
31 December 2014

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

A handwritten signature in black ink, appearing to be 'Ian Knight', written in a cursive style.

Ian Knight
Director

25 February 2015
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 2014 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

Dana Bentley
Partner

Melbourne

25 February 2015

Clean TeQ Holdings Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2014

		Consolidated	
		31 December 2014	31 December 2013
	Note	\$'000	\$'000
Revenue	5	3,913	4,519
Share of losses of joint ventures accounted for using the equity method	6	-	(283)
Expenses			
Raw materials and other direct costs		(2,487)	(3,173)
Employee benefits expenses		(1,380)	(1,935)
Depreciation and amortisation expenses		(712)	(346)
Legal and professional expenses		(359)	(302)
Occupancy expenses		(137)	(128)
Marketing expenses		(261)	(153)
Other expenses		(373)	(427)
Finance costs		(430)	(240)
Loss before income tax expense		(2,226)	(2,468)
Income tax expense		(35)	-
Loss after income tax expense for the half-year		(2,261)	(2,468)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year		<u>(2,261)</u>	<u>(2,468)</u>
Loss for the half-year is attributable to:			
Non-controlling interest		32	-
Owners of Clean TeQ Holdings Limited		(2,293)	(2,468)
		<u>(2,261)</u>	<u>(2,468)</u>
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		32	-
Owners of Clean TeQ Holdings Limited		(2,293)	(2,468)
		<u>(2,261)</u>	<u>(2,468)</u>
		Cents	Cents
Basic earnings per share		(0.89)	(1.70)
Diluted earnings per share		(0.89)	(1.70)

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

Clean TeQ Holdings Limited
Statement of financial position
As at 31 December 2014

		Consolidated	
		31 December	
	Note	2014 \$'000	30 June 2014 \$'000
Assets			
Current assets			
Cash and cash equivalents		3,511	2,540
Trade and other receivables		1,806	788
Inventories		785	939
Income tax receivable		628	463
Other financial assets		43	27
Total current assets		6,773	4,757
Non-current assets			
Other financial assets		263	280
Plant and equipment		772	851
Intangibles	7	14,812	13,511
Total non-current assets		15,847	14,642
Total assets		22,620	19,399
Liabilities			
Current liabilities			
Trade and other payables	8	3,338	2,886
Borrowings	9	507	22
Income tax		35	-
Employee benefits		322	339
Other		713	976
Total current liabilities		4,915	4,223
Non-current liabilities			
Borrowings	10	3,572	4,080
Employee benefits		21	16
Total non-current liabilities		3,593	4,096
Total liabilities		8,508	8,319
Net assets		14,112	11,080
Equity			
Issued capital	11	21,319	17,787
Reserves	12	1,234	198
Accumulated losses		(9,198)	(6,905)
Equity attributable to the owners of Clean TeQ Holdings Limited		13,355	11,080
Non-controlling interest	13	757	-
Total equity		14,112	11,080

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

Clean TeQ Holdings Limited
Statement of changes in equity
For the half-year ended 31 December 2014

Consolidated	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Non- controlling Interests \$'000	Total equity \$'000
Balance at 1 July 2013	13,149	91	(2,045)	-	11,195
Loss after income tax expense 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 and distributions:					
Contributions of equity, net of transaction costs	380	-	-	-	380
Share-based payments (note 21)	16	157	-	-	173
Lapse of options	-	(23)	23	-	-
Balance at 31 December 2013	13,545	225	(4,490)	-	9,280

Consolidated	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Non- controlling Interests \$'000	Total equity \$'000
Balance at 1 July 2014	17,787	198	(6,905)	-	11,080
Profit/(loss) after income tax expense for the half-year	-	-	(2,293)	32	(2,261)
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	(2,293)	32	(2,261)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions and distributions:					
Contributions of equity, net of transaction costs (note 11)	3,517	-	-	-	3,517
Share-based payments (note 21)	15	74	-	-	89
Lapse of options	-	(158)	-	-	(158)
Change of ownership interest:					
Change of ownership interest - recognition of new non-controlling interests in subsidiary	-	-	-	725	725
Change in non-controlling interests without a change in control	-	1,120	-	-	1,120
Balance at 31 December 2014	21,319	1,234	(9,198)	757	14,112

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

Clean TeQ Holdings Limited
Statement of cash flows
For the half-year ended 31 December 2014

	Consolidated	
	31 December 2014	31 December 2013
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	2,888	7,657
Payments to suppliers and employees	(5,033)	(8,929)
	(2,145)	(1,272)
Interest received	27	26
Interest and other finance costs paid	(212)	(219)
Net cash used in operating activities	(2,330)	(1,465)
Cash flows from investing activities		
Payments for property, plant and equipment	(30)	(6)
Development expenditure	(409)	(420)
Proceeds from sale of partial interest in subsidiary	345	-
Net cash used in investing activities	(94)	(426)
Cash flows from financing activities		
Proceeds from issue of shares	3,658	412
Proceeds from issue of convertible notes	-	2,232
Cost of issuing equity instruments	(141)	(32)
Payments for cash on deposit for security over bank guarantees	-	(131)
Payment of deferred consideration	(100)	-
Repayment of borrowings	-	(529)
Repayment of finance lease	(22)	(10)
Net cash from financing activities	3,395	1,942
Net increase in cash and cash equivalents	971	51
Cash and cash equivalents at the beginning of the financial half-year	2,540	1,081
Cash and cash equivalents at the end of the financial half-year	3,511	1,132

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

Note 1. General information

The financial report covers Clean TeQ Holdings Limited ('Parent Entity' or 'Company') as a Consolidated Entity consisting of Clean TeQ Holdings Limited and the entities it controlled (together 'Consolidated entity' or 'Group'). The financial report is presented in Australian dollars, which is Clean TeQ Holdings Limited's functional and presentation currency.

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

Clean TeQ 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
Victoria, Australia 3168

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

The financial report was authorised for issue, in accordance with a resolution of directors, on 25 February 2015. 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 2014 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 2014 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, except for the policies stated below.

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.

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. The adoption of these accounting standards did not have any significant impact on the financial performance or financial position of the Consolidated Entity during the financial half year ended 31 December 2014 and are not expected to have any significant impact for the financial year ending 30 June 2015.

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

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.

Note 2. Significant accounting policies (continued)

The Consolidated Entity reported a net loss after tax from continuing operations for the financial half year of \$2.261 million (2013: \$2.468 million loss). Although the Air Division recorded a profit result during the period, operational revenues were more than offset by fixed overhead costs.

Working capital, being current assets less current liabilities, amounts to a \$1.858 million surplus (30 June 2014: \$0.534 million surplus), with cash reserves increasing from \$2.540 million to \$3.511 million during the period. Net cash outflows from operating activities were \$2.330 million for the financial half year (2013: \$1.465 million).

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 contracted work in hand totalling approximately \$4.7 million expected to be delivered in the 2015 and 2016 financial years and has further trading and tender opportunities which are expected to lead to significant future revenue;
- during the financial half year, the Company raised \$3.517 million in equity capital after issue costs, indicating strong support from investors to invest in the Consolidated Entity and its technologies;
- the Consolidated Entity expects that the relationship with its major investors will assist in widening the Consolidated Entity's opportunities for profitable commercialisation of its technologies in addition to assisting in securing further funding required;
- as set out in the financial statements, during the financial half year the Consolidated Entity made strong progress in respect of the commercialisation of its water and scandium recovery technologies including:
 - o commencement of commissioning of a scandium recovery pilot plant at Japan's Ishihara Sangyo Kaisha. Ltd's (ISK) titanium dioxide facility in Yokkaichi;
 - o the merger of the Consolidated Entity's Air Division with Aromatrix Technologies' Australian Air Business to create a business of significant scale in Australia whilst providing the platform for growth through Asia;
 - o the signing of a heads of agreement with the Shanghai Investigation, Design and Research Institute Co. Ltd (SIDRI) for the deployment of the Consolidated Entity's unique proprietary water treatment technologies in China; and
 - o the agreement to acquire the Syerston Project in central New South Wales from a wholly owned subsidiary of Ivanhoe Mines Ltd.
- 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 periods.

The directors are confident that the Consolidated Entity can continue to access debt and equity funding to meet short term working capital requirements, and has a history of securing such funding as required in the past to support their confidence.

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

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

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

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 2014.

Business combinations

Business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Consolidated Entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Note 4. Operating segments

Identification of reportable operating segments

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

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

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

Types of products and services

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

Air Purification	Clean TeQ, through one of its subsidiary companies, Clean TeQ Aromatrix Pty Ltd, 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, radioactive elements (such as uranium) and rare earth elements (such as scandium).

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.

Note 4. Operating segments (continued)

Operating segment information

	Air Purification	Resource Recovery	Water Purification	Intersegment eliminations/ unallocated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated - 31 December 2014					
Revenue					
Sales to external customers	3,597	210	103	-	3,910
Other revenue/(revenue adjustments)	-	-	(169)	145	(24)
Interest	-	-	-	27	27
Total revenue	<u>3,597</u>	<u>210</u>	<u>(66)</u>	<u>172</u>	<u>3,913</u>
Reportable segment (loss)/profit before tax	<u>489</u>	<u>(36)</u>	<u>(224)</u>	<u>(2,455)</u>	<u>(2,226)</u>
Loss before income tax expense					<u>(2,226)</u>
Income tax expense					(35)
Loss after income tax expense					<u>(2,261)</u>
Assets					
Segment assets	4,022	5,067	8,923	4,608	22,620
Total assets					<u>22,620</u>
	Air Purification	Resource Recovery	Water Purification	Intersegment eliminations/ unallocated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated - 31 December 2013					
Revenue					
Sales to external customers	4,166	-	91	140	4,397
Other revenue	-	-	-	96	96
Interest	-	-	-	26	26
Total revenue	<u>4,166</u>	<u>-</u>	<u>91</u>	<u>262</u>	<u>4,519</u>
Reportable segment (loss)/profit before tax	<u>1,246</u>	<u>-</u>	<u>(183)</u>	<u>(3,531)</u>	<u>(2,468)</u>
Loss before income tax expense					<u>(2,468)</u>
Income tax expense					-
Loss after income tax expense					<u>(2,468)</u>
Consolidated - 30 June 2014					
Assets					
Segment assets	1,192	4,870	9,632	3,705	19,399
Total assets					<u>19,399</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 2014, except for the assets of the Air segment, which have increased due to the acquisition of the Aromatrix air treatment business by the Consolidated Entity in the December 2014 half year (refer to Note 18 for details), as previously announced to the market, and an increase in the business activity of the segment towards the end of the half year.

Note 5. Revenue

	Consolidated	
	31 December 2014	31 December 2013
	\$'000	\$'000
<i>Sales revenue</i>		
Contract revenue	3,718	4,374
Government grants	23	23
	<u>3,741</u>	<u>4,397</u>
<i>Other revenue</i>		
Interest	27	26
Other revenue	145	96
	<u>172</u>	<u>122</u>
Revenue	<u>3,913</u>	<u>4,519</u>

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

	Consolidated	
	31 December 2014	31 December 2013
	\$'000	\$'000
Share of profit/(loss) - joint ventures	-	(283)

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

Note 7. Non-current assets - intangibles

		Consolidated	
		31 December 2014	30 June 2014
	Note	\$'000	\$'000
Goodwill - at cost	18	1,500	-
Development - at cost		18,349	18,596
Less: Accumulated amortisation		(8,497)	(8,637)
		<u>9,852</u>	<u>9,959</u>
Patents and trademarks - at cost		713	713
Less: Accumulated amortisation		(250)	(233)
		<u>463</u>	<u>480</u>
Licenses - at cost		3,135	3,135
Less: Accumulated amortisation		(138)	(63)
		<u>2,997</u>	<u>3,072</u>
		<u>14,812</u>	<u>13,511</u>

During the period ended 31 December 2014, the consolidated entity wrote off capitalised research and development expenditure with a cost of \$655,000 (2013: Nil) and accumulated amortisation of \$528,000 (2013: Nil).

Note 8. Current liabilities - trade and other payables

	Consolidated	
	31 December	30 June 2014
	2014	2014
	\$'000	\$'000
Trade payables	955	591
Deferred consideration payable	2,119	2,000
Other payables	264	295
	<u>3,338</u>	<u>2,886</u>

Deferred consideration of \$2,119,000 (30 June 2014: \$2,000,000) is payable to Nippon Gas Co Ltd for the acquisition of Associated Water Pty Ltd and Clean World Japan.

Note 9. Current liabilities - borrowings

	Consolidated	
	31 December	30 June 2014
	2014	2014
	\$'000	\$'000
Convertible notes payable	500	-
Hire purchase	7	22
	<u>507</u>	<u>22</u>

On 5 December 2013 the Company issued 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, and they can be converted to equity at any time. The notes were issued to Sam Riggall, who was then Chairman and Non-Executive Director of the Company, on terms that are considered to be normal market terms. Mr Riggall is currently Chairman, Executive Director and Interim Chief Executive Officer of the Company.

Note 10. Non-current liabilities - borrowings

	Consolidated	
	31 December	30 June 2014
	2014	2014
	\$'000	\$'000
Convertible notes payable	3,572	4,072
Hire purchase	-	8
	<u>3,572</u>	<u>4,080</u>

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. 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 an adjusted conversion price of approximately \$0.07 (7 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 prior to the maturity date at the request of the note holder at an adjusted conversion price of approximately \$0.07 (7 cents) per share.

Note 10. Non-current liabilities - borrowings (continued)

Total secured liabilities

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

	Consolidated	
	31 December 2014 \$'000	30 June 2014 \$'000
Hire purchase	7	30

Note 11. Equity - issued capital

	Consolidated			
	31 December 2014 Shares	30 June 2014 Shares	31 December 2014 \$'000	30 June 2014 \$'000
Ordinary shares - fully paid	300,098,454	241,670,775	21,319	17,787

Movements in ordinary share capital

Details	Date	No of shares	Issue price	\$'000
Balance	1 July 2014	241,670,775		17,787
Shares issued through Private placement	4 September 2014	2,000,000	\$0.05	100
Shares issued through Private placement	8 October 2014	18,685,714	\$0.07	1,308
Shares issued to Employees	19 December 2014	241,965	\$0.06	15
Shares issued through Private placement	19 December 2014	37,500,000	\$0.06	2,250
Costs of issuing equity		-	-	(141)
Balance	31 December 2014	300,098,454		21,319

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.

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 12. Equity - reserves

	Consolidated	
	31 December 2014 \$'000	30 June 2014 \$'000
Share-based payments reserve	114	198
Subsidiary internal group ownership change reserve	1,120	-
	1,234	198

Note 12. Equity - reserves (continued)

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Subsidiary internal group ownership change reserve

This reserve is used to recognise directly in equity any difference between the amount by which non-controlling interests (NCIs) in subsidiaries of the consolidated group are adjusted and the fair value of the consideration paid or received in connection with that adjustment. Such adjustments are required by Accounting Standard AASB 10 Consolidated Financial Statements which provides that, when the proportion of the equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary and such adjustments must be recorded in equity. As the Consolidated Entity has, during the reporting period, a new non-controlling interest in one of its controlled entities, this reserve is required to record any relevant amounts.

Movements in reserves

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

Consolidated	Subsidiary internal group ownership change \$'000	Share based payments \$'000	Total \$'000
Balance at 1 July 2014	-	198	198
Lapsed options transferred to accumulated losses	-	(158)	(158)
Share based payments	-	74	74
Difference between NCI amount and consideration received	1,120	-	1,120
Balance at 31 December 2014	1,120	114	1,234

Note 13. Equity - non-controlling interest

	Consolidated	
	31 December 2014 \$'000	30 June 2014 \$'000
NCI share of net assets at date of change of ownership interest	725	-
Retained profits	32	-
Balance at 31 December 2014	757	-

Non-controlling interests (NCIs) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Consolidated Entity's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Note 14. Equity - dividends

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

Note 15. Contingent liabilities

The Consolidated Entity had no contingent liabilities at 31 December 2014 or 30 June 2014.

Note 16. Commitments

	Consolidated	
	31 December	30 June 2014
	2014	2014
	\$'000	\$'000
<i>Hire Purchases</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	8	25
One to five years	-	8
	<hr/>	<hr/>
Total commitment	8	33
Less: Future finance charges	(1)	(3)
	<hr/>	<hr/>
Net commitment recognised as liabilities	7	30
	<hr/>	<hr/>
<i>Operating lease commitments (non-cancellable)</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	187	216
One to five years	708	789
More than five years	-	35
	<hr/>	<hr/>
	895	1,040
	<hr/>	<hr/>

There is no material change to the commitments since those disclosed in the financial report for the year ended 30 June 2014.

Note 17. Related party transactions

Parent Entity

Clean TeQ Holdings Limited is the Parent Entity.

Subsidiaries

Interests in subsidiaries are set out in note 19.

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 2014
	2014	2014
	\$	\$
Current borrowings:		
Convertible notes issued to Mr Sam Riggall	500,000	500,000

Mr Sam Riggall is the Chairman, Executive Director and Interim Chief Executive Officer of the Company.

Note 17. Related party transactions (continued)

Terms and conditions

Details of terms and conditions of the convertible notes issued to Mr Riggall are set out in Note 10. The issue of the notes was made on normal commercial terms and conditions and at market rates.

Note 18. Business combinations

On 1 December 2014, Clean TeQ Air Pty Ltd ("Air"), a controlled entity of the Consolidated Entity, completed the acquisition all of the assets of the Aromatrix Australia air treatment business from Aromatrix Technologies. Total consideration for the acquisition was \$1.5 million and was settled by an issue of Air shares with a value of \$1.5 million by Air to Aromatrix Technologies.

Air is currently undertaking a process to fully integrate the Aromatrix business with Air's existing air treatment business.

The merger of these two businesses is the first phase of a strategic objective to grow and maximize the potential of the air business, with a view to opening up international expansion opportunities.

The business assets acquired comprised the following:

- goodwill;
- use of the name "Aromatrix" within Australia;
- confidential information and intellectual property relating to the business;
- relevant records or documents in connection with the business.

A fair value of \$1.5 million attributed to the business assets has been measured on a provisional basis at 31 December 2014 and provisionally allocated to goodwill (refer to Note 7).

The acquisition accounting for the Aromatrix business including determining the fair value of other identifiable intangible assets will be completed by 30 June 2015. The Consolidated Entity has performed a provisional assessment of the fair value of the assets and liabilities as at the date of the acquisition. For the purposes of the balance sheet, the assets and liabilities have been recorded at their provisional fair values. Under Australian Accounting Standards, the consolidated entity has up to 12 months from the date of acquisition to complete its initial acquisition accounting. The consolidated entity has already commenced this exercise to consider the fair value of intangible assets acquired in the acquisitions. Any adjustments to the fair values, including associated tax adjustments, will have an equal and opposite impact on the goodwill recorded on acquisition. Accordingly, any such adjustments will have no impact on the aggregate of the net assets or the consolidated entity's net profit after tax with the exception of any amortisation charges. At the time of this report the total amount of goodwill that is expected to be deductible for tax purposes has not yet been determined.

As part of this acquisition, Aromatrix Technologies has acquired a 33% ownership interest in Air.

The separately managed business - Clean TeQ Aromatrix Pty Ltd - is 59% owned by the Company, 33% owned by Aromatrix, and the residual 8% is owned by the Air management team, with the Company having sold part of its shareholding in Air to the Air management team for \$345,000 cash in December 2014.

The merger is expected to bring together the best of both companies' capabilities and create a business of significant scale in Australia whilst providing the platform for growth through Asia and is expected to provide access to procurement and fabrication channels that will allow the company to continue to build on its reputation for high quality products and delivery whilst providing the necessary competitiveness on price that is required to compete in S.E. Asian markets.

Clean TeQ Pty Ltd changed its name to Clean TeQ Aromatrix Pty Ltd during January 2015.

Note 19. 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 2014 Financial Report:

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 December 2014 %	30 June 2014 %
Clean TeQ Limited	Australia	100.00%	100.00%
Clean TeQ Air Pty Ltd (renamed Clean TeQ Aromatrix Pty Ltd on 28 January 2015)	Australia	59.00%	100.00%
Clean TeQ Metals Pty Ltd (incorporated 28 August 2014)	Australia	100.00%	-%
Clean TeQ Global Water Solutions Pty Ltd (incorporated 20 November 2014)	Australia	100.00%	-%
Associated Water Pty Ltd	Australia	100.00%	100.00%
LiXiR Functional Foods Pty Ltd	Australia	100.00%	100.00%
Clean World Japan	Japan	100.00%	100.00%

Note 20. Events after the reporting period

No matter or circumstance has arisen since 31 December 2014 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Note 21. Share-based payments

Shares

During December 2014 the Company issued 241,965 fully paid ordinary shares in the Company with an issue price of 6.2 cents per share to eligible employees pursuant to the Company's Employee Share Plan. The total value of these shares was \$15,000.

Options

On 19 December 2014, the Company issued 4,000,000 options (2,000,000 with an issue price of \$0.020 per option and 2,000,000 with an issue price of \$0.017 per option) with a total fair value of \$74,000 as partial consideration for the broker's capital raising services provided for a capital raising undertaken during that month.

The Black Scholes 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
19/12/2014	19/06/2017	\$0.06	\$0.12	83.00%	-%	2.29%	\$0.020
19/12/2014	19/06/2017	\$0.06	\$0.15	83.00%	-%	2.29%	\$0.017

Note 22. Fair value measurement

There were no assets or liabilities measured or disclosed at fair value at the reporting date.

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

Clean TeQ Holdings Limited
Directors' declaration
31 December 2014

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 2014 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'.

Ian Knight
Director

25 February 2015
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 2014, 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 22 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 2014 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.

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 2014 and of its performance for the half-year 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 \$2,261,000 during the half-year ended 31 December 2014. 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

KPMG

Dana Bentley

Partner

Melbourne

25 February 2015