CLEAN TEQ

*Powering innovation*

# Annual Report 2017

## OUR STORY

Clean TeQ has two divisions to its business: Clean TeQ Metals and Clean TeQ Water.

Clean TeQ Metals includes Clean TeQ's Syerston cobalt-nickel-scandium Project. The resource-rich central west of New South Wales, Australia, is home to this world-class Project.

Syerston will be the world's first operation to exclusively produce high-purity nickel sulphate and cobalt sulphate; critical new materials essential for today's energy storage industry.

Positioned to become a leading supplier to the fast-growing lithium-ion battery market, Clean TeQ is committed to being a reliable and valued producer to the global electric vehicle market.

Scandium will also be produced at Syerston for the next generation of lightweight aluminium alloys.

Founded in 1990, Clean TeQ has a track record of innovation in clean technologies spanning over 25 years. These technologies are being commercialised and applied across several projects within Clean TeQ Metals and Clean TeQ Water.

## Contents

## OUR COMPANY

Through the application of our ion-exchange technologies, we aspire to be a world leader in the supply of metals which lower the environmental burden.

We focus on metals that are highly geared to disruptive changes in technologies and markets, particularly in global energy and transport.

Innovation is at the core of our philosophy, focused on simplicity in technical solutions to deliver quality, affordable products to our customers.

Clean TeQ is powering innovation.

# Our technology

Clean TeQ's Clean-iX® continuous ion exchange technology provides the basis for highly efficient extraction and purification processes for a range of valuable strategic metals from ores, tailings, slurries and solutions. In many instances, conventional processing routes can be economically marginal or pose an environmental burden that is not sustainable.

One of Clean TeQ's competitive advantages at its Syerston Project is gained through the use of its proprietary Clean-iX® process. Clean-iX® produces metal salts in the primary extraction phase of processing, thereby saving significant re-handling and reprocessing costs. It does this by selectively extracting nickel and cobalt onto a polymer-based ion exchange resin, and then stripping the metals from the resin in the form of a sulphate.

Clean TeQ's continuous ionic filtration technology, CIF®, uses similar principles to extract pollutants from wastewaters, making water reuse solutions available to a variety of industries including power, mining, oil, gas and municipal.

Clean TeQ's CIF® and NEX™ (Natural Evaporation and Crystallisation) water treatment systems can be applied across a range of different applications such as acid mine drainage, municipal wastewater and industrial water treatment. China is a highly suitable market for our technologies, especially in the northern regions, where water scarcity and water pollution are significant challenges.

# Messages from the Co-Chairmen

## Co-Chairman Mr Jiang Zhaobai

It was with great pride and pleasure that I accepted the invitation to become Co-Chairman of our company alongside my good friend Mr Robert Friedland.

Energy storage represents one of the fastest growing markets in the world, and this is particularly the case in China. It is vital that new and reliable sources of raw materials for electric vehicle batteries and utility-scale energy storage systems are developed as quickly as possible. It is important that we are all involved and play a part in facilitating solutions to improve the lives of millions of people, especially to see millions even hundreds of millions drive clean green cars in Asia.

The Syerston Project is a strategically important source of the materials – cobalt and nickel sulphate – that are key components of energy storage systems which are critical to achieving such a change in our society. Clean TeQ is positioned to become a globally significant supplier to the rapidly expanding lithium-ion battery industry.

I look forward to working with Clean TeQ to support the rapid development of the Syerston Project and the business more generally. The coming year will be one of great progress and prosperity for our business. I commend the work of my Co-Chairman, our fellow Board members and our team, and look forward to continuing to help guide an organisation with such a bright and promising future.

Mr Jiang Zhaobai
Co-Chairman

## 姜照柏主席致辞：

能获邀与我的好友罗伯特·弗里德兰先生一起成为Clean TeQ公司的联席主席，我感到十分荣幸。

储能市场是当今世界上增长最快的领域之一，尤其在中国行业发展突发猛进。伴随着动力电池和大型能源储存设备的需求快速拉升，如何尽快扩大可靠的原料供给是全产业的当务之急。重要的是，我们能够帮助亚洲成千上亿人用上清洁能源汽车，从而为改善人类生活做出贡献，这是我们此项事业的重大意义所在。

Syerston项目的最终产品为硫酸钴和硫酸镍，这两种材料皆为储能电池核心材料，具备重要的战略意义，对改变我们的生活便利性起着举足轻重的作用。Clean TeQ将紧跟锂电行业发展趋势，致力于改善人类出行便利性，成为全球重要的锂电原料供应商。

我期待与Clean TeQ的管理层携手，为Syerston项目的迅速开发提供关键支持，同时共同开拓新能源领域更为广阔的商业机会。未来一年将是我们取得重大突破的一年。截至目前，公司的董事会和经营团队呈现了十分出色的工作表现。我期待能和我们优秀的团队成员一起，引导这样一家具有无限光明前景的企业走向辉煌和成功。

姜照柏

## Co-Chairman Mr Robert Friedland

The February strategic investment received from Pengxin Mining this year was an important milestone in advancing Clean TeQ's rapid development.

The Shanghai-based Pengxin Group is a highly respected and successful group of diversified businesses operating across China and around the world. Mr Jiang Zhaobai, Chairman of Pengxin Group, has become a good friend and, as Co-Chairman of Clean TeQ, is personally participating in the achievement of our mutual goals.

Great progress is being made in fast-tracking our Syerston Project that is set to play a critical role in the electrification revolution spreading through the world's transportation and energy sectors.

Syerston, in the Australian state of New South Wales, will become the world's largest, non-Congolese source of battery-grade cobalt sulphate and nickel sulphate that are essential for the cathodes of lithium-ion batteries.

With the leadership of Managing Director Sam Riggall, and the deep experience and resourcefulness of our implementation team, Clean TeQ will become the world's leading supplier of ultra-high-purity raw materials for a new generation of lithium-ion car and truck batteries.

Clean TeQ's production will help to reduce the unacceptable burden of environmental and health impacts from the world's reliance on fossil fuels during the past 100 years.

The progress being made by Clean TeQ in our strategy to significantly disrupt the supply chain of lithium-ion-battery-grade nickel and cobalt sulphates already is attracting growing attention in financial markets.

Syerston's resources also will support a revolution in high-strength, lightweight, scandium-aluminium alloys. The project will establish, for the first time, a world-scale, low-cost and reliable supply of scandium oxide that will enable the development and adoption of a wide range of applications for the alloys.

Clean TeQ's principal assets – Syerston and the company's proprietary CIF® and NEX™ water-treatment systems – will help to bring about positive changes in the way we live, work and travel.

Our extremely dedicated management and employees are intently focused on seizing the extraordinary business opportunities that we see before us.

Mr Robert Friedland
Co-Chairman

# Message from the Managing Director

The year in review has been one of complete transformation for Clean TeQ. Our Board has been considerably strengthened with the appointment of Mr Jiang Zhaobai as Co-Chairman together with Mr Robert Friedland. Our team has also grown in skills and size, commensurate with our objectives and goals.

Within Clean TeQ Metals, our Syerston Project has been our sole focus during the year in review. Syerston is a laterite (iron-hosted) mineral resource, rich in cobalt, nickel and scandium, located 350km west of Sydney, NSW. Development ready, Syerston will be the first mine in the world to exclusively produce high-purity cobalt and nickel sulphate for lithium-ion battery cathodes.

Over the last year, we have progressed the Syerston Project through feasibility studies and entered into several key strategic partnerships to enable the rapid development of the Project. We also made considerable progress in testing and refining our proprietary processes, which will allow us to produce high-purity cobalt and nickel sulphate to meet our future customers' specifications.

In the latter half of 2016 we released a nickel and cobalt mineral resource update, which was an important trigger for the Syerston Project. This new emphasis on the nickel and cobalt potential of the project was in direct response to several drivers. These include the opportunity of the global shift towards electric vehicles and energy storage, Clean TeQ's proprietary mineral processing technology and Syerston's unique mineralogy.

Completion of the Syerston nickel-cobalt Pre-Feasibility Study was the next important step, which demonstrated the robust economic potential of Syerston.

This technical work formed the foundations to securing our strategic partnership with Shanghai Pengxin Group. This agreement represented a breakthrough in the development of Syerston. It provided us with the initial funding required to fast track the development of Syerston and a strong partner to assist with our future growth and development.

Syerston is an outstanding cobalt-nickel-scandium resource. Combining this world-class asset with Clean TeQ's proprietary processing technology is a clear point of difference that will allow us to deliver high-purity cobalt and nickel sulphate end-products at lowest quartile cost.

We have made strong progress towards completion of the Definitive Feasibility Study. Importantly, we have also successfully processed 20 tonnes of Syerston ore through our pilot plant, located in Perth, with positive feedback from prospective customers about the samples.

Fast-tracking Syerston is an immediate priority. To this end, considerable work is being done to build out the project construction and operations team in parallel with completion of the Definitive Feasibility Study. I look forward to sharing updates about Syerston's progress in the coming quarters.

In Clean TeQ Water, the last year has seen some exciting developments. We have entered into important partnerships and secured key contracts – all of which highlights the strong potential for the application of our ion exchange processes in the field of water treatment.

During the year we formed a Chinese incorporated joint venture with Jinzhong Hoyo Municipal Urban Investment & Construction Co., Ltd (Hoyo) to pursue water treatment opportunities in China's Shanxi Province using our water purification technology.

Two autoclaves have been purchased for Clean TeQ's Syerston Project.

This company has been awarded an initial contract to build, own and operate a Clean TeQ CIF® water treatment plant. The plant will treat up to 13,000 tonnes of effluent per day for a 20-year period at a waste water treatment plant owned by Hoyo.

In May 2017, our wholly owned subsidiary Clean TeQ Water Pty Ltd won a significant contract with Multotec Process Equipment Pty Ltd (Multotec) in Oman. The contract includes the design, procurement and commissioning of a Clean TeQ proprietary CIF® wastewater treatment solution at a minerals processing plant currently under construction. We have also entered into an exclusive Technology Distribution Agreement with Multotec for the African continent.

Securing contracts to perform feasibility and engineering for several ion exchange water treatment systems at mining or processing operations in Australia and Africa highlights the strong connection and synergies between our two business divisions. We are committed to lowering the global environmental burden and our technology is the enabler.

To this end, I am pleased to report that over the next year or so we expect to deliver several commercial plants that will be great demonstration sites for the versatility of Clean TeQ's CIF® and NEX™ water treatment systems across a range of different applications. These include mine drainage, acid mine drainage, municipal wastewater and industrial water treatment. China is a primary focus for these technologies, where water scarcity and water pollution are two of the greatest socio-economic threats facing the country.

As we grow and are increasingly out in the field, we are working on implementing the right fit-for-purpose health, safety and environment (HSE) systems. As we go through this important process we are thinking holistically about the concept of HSE, which is embodied in our value of "care". I am a firm believer in the importance of culture in enabling these systems and will be encouraging everyone across our business to achieve this.

As this report goes to print, Clean TeQ has been included in the S&P/ASX300 Index – positive recognition that our outstanding work over the last year is resonating with the investment market. While the accolade shows we are growing, it's the quality of the growth that pleases me most. We are building a solid foundation for the future, with a highly capable team in place to deliver on our commitments.

I would like to take this opportunity to thank our retiring Board member, Roger Harley, for his significant contribution to our business. Roger has been on the Board for seven years and has tirelessly shared his experience and deep insight to help shape our business of today. His hallmark passion for innovation has been instrumental in the evolution of Clean TeQ and his contribution will be missed.

I am looking forward to delivering on our key targets during the coming year, and thank shareholders for their ongoing support.

Sam Riggall
Managing Director

APWorks, a subsidiary of Airbus Group, has developed the Light Rider (pictured below), a 3D printed Scalmalloy® (aluminium-magnesium-scandium alloy) electric motorbike which, weighing in at just 35kg, is about 30 per cent lighter than most conventional e-motorcycles. The Light Rider is capable of going from 0 to 80km per hour in seconds and can travel close to 60km between charges.

# The way we work

Clean TeQ's vision is to create a sustainable, value-creating business through positive innovation and disruptive change.

Our five values underpin everything we do:

**Respect** – We are genuine in what we do and say, taking accountability for our actions, keeping our promises and instilling confidence in those we work with.

**Care** – Care for our colleagues, communities, partners, and the environment ensures a safe place to work, live and thrive, and underpins our licence to operate.

**Togetherness** – We achieve success in the way we work by being connected and collaborative, and our relationships are built from a position of trust.

**Simplicity** – We focus our effort on what matters most, driving actions and decisions to achieve our business objectives and share value (customer, financial, social and environment).

**Ambition** – We are driven to establish new industry norms through innovation to address global needs of the future.

Reflecting our commitment to sustainability, we will:

- Ensure the commitments defined in our Sustainability Policy are applied in all business planning and decision-making processes.
- Build a strong and positive safety culture based on visible leadership, ongoing training and access to the right tools and equipment. We aspire to create a workplace that ensures everyone goes home safe and well, every day. The contribution of all members of our organisation is essential to building this culture.
- Implement robust management systems across our businesses, with a commitment to continual improvement.
- Focus on hazard identification and management of risks to our people, the environment and communities in which we operate.
- Design, construct and operate our projects to mitigate or remove environmental impacts, minimise our use of energy and natural resources, and remediate any environmental impact of our activities. We respect the conservation of biodiversity.
- Meet or exceed the regulatory requirements in the areas in which we work.
- Deliver the highest possible quality products and services.
- Build relationships and work in a spirit of togetherness with the people and organisations in the areas in which we operate. These relationships are based on mutual respect, open and transparent dealings and lasting commitment.
- Share our values, foster value creation and help our host communities thrive beyond us.
- Provide equal opportunity and create a diverse work environment in which everyone is treated fairly, with respect and can reach their potential.

# Clean TeQ Water

Clean TeQ Water is providing innovative wastewater treatment solutions for removing hardness, desalination, nutrient removal and zero liquid discharge.

The sectors of focus include municipal wastewater, surface water, industrial wastewater and running wastewater.

Clean TeQ Water continues to promote and demonstrate our Continuous Ion Exchange (CIF®) and Natural Evaporation and Crystallisation (NEX™) technologies with an emphasis on the Chinese water market, the largest and most rapidly growing water treatment market in the world.

CIF® and NEX™ makes a water treatment solution available to many Chinese industries including power, mining, oil and gas and municipal.

Contractual highlights of the year in review include:

- **CHINA:** Via our newly created Joint Venture with Jinzhong Hoyo Municipal Urban Investment & Construction Co., Ltd – to build, own and operate a Clean TeQ CIF® water treatment plant to treat up to 13,000 tonnes of effluent a day for a 20-year period at a waste water treatment plant.
- **OMAN:** Design, procure and commission a Clean TeQ proprietary CIF® wastewater treatment solution at a minerals processing plant currently under construction.
- **AUSTRALIA:** Install CIF® wastewater treatment solution to treat tailings water to a standard to allow discharge at a gold mining operation. The technology removes toxic pollutants such as sulphate, antimony and arsenic from wastewater streams.
- **AFRICA:** Feasibility and engineering for a Clean-iX® uranium recovery plant to remove low concentrations of uranium from process liquor at a copper/cobalt processing operation.

We anticipate that these opportunities will progress to commercial supply contracts to deliver a Clean TeQ water treatment solution.

# Clean TeQ Metals

Clean TeQ specifically targets metals that are highly geared to disruptive changes in technologies and markets, particularly in global energy and transport.

Our Clean-iX® continuous ion exchange process provides highly efficient extraction and purification for a range of valuable strategic metals from slurries and solutions.

We are focused on applying our proprietary ion exchange processes to the recovery of strategic metals from ores and tailings where the conventional routes are economically marginal or pose an environmental burden that is not sustainable.

Clean TeQ seeks to own, joint venture or develop assets where the application of our technical approach unlocks significant value.

## ABOUT THE SYERSTON PROJECT

Clean TeQ's Syerston Project is a laterite (iron-hosted) mineral resource, rich in cobalt, nickel and scandium, located 350km west of Sydney and 100 per cent owned by Clean TeQ. It is uniquely positioned as one of the largest and highest-grade sources of cobalt outside Africa. Once developed, it will be the first operation in the world to produce high-purity nickel and cobalt sulphate – critical raw material inputs into the lithium-ion battery cathode market.

Clean TeQ acquired the Syerston Project in 2014. The Project, located near the township of Fifield in Central West NSW, is based in one of Australia's most established mining jurisdictions. It is well serviced by infrastructure, with road, rail and power services readily available. The Fifield district is noted for its intense magnetic anomalism and significant occurrences of minerals containing cobalt, nickel, scandium and platinum.

The Syerston Project comprises an exploration licence and several mining lease applications granted under the NSW Mining Act, which overlay the project area. In addition, Clean TeQ owns the freehold land where the mine and processing facility will be located.

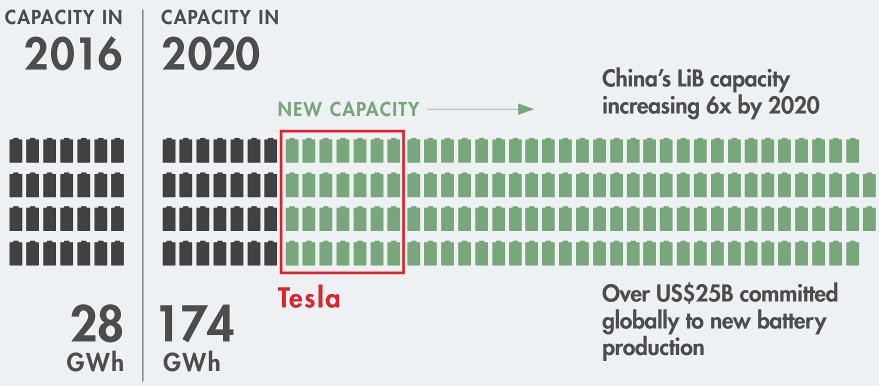
All key approvals for the Project have been secured including approval of the company's Environmental Impact Statement, a secured water allocation and an approved Development Consent. Syerston is development ready and will be the first mine developed to exclusively produce high-purity cobalt and nickel sulphate to supply the lithium-ion battery market.

In August 2017 the company signed a binding offtake agreement with Beijing Easpring Material Technology Co Ltd, one of the world's largest producers of high quality cathode material for the lithium-ion battery industry. The five-year offtake agreement is for 20 per cent of cobalt and nickel sulphate production from Clean TeQ's Syerston Project.

The Syerston resource also hosts a globally significant resource of scandium. This rare metal is widely regarded as the most effective alloying element that exists for aluminium, improving strength, corrosion-resistance and weldability. However, due to its scarcity, scandium has rarely been adopted for large-scale industrial applications.

Global scandium oxide production is limited to approximately 15 tonnes per annum. The absence of reliable and secure long-term production, combined with a high and volatile price, has constrained the use of scandium to niche applications. The Syerston Project has the potential to produce up to 170 tonnes per annum scandium oxide as by-product from cobalt and nickel production, for very low incremental capital and operating cost. This represents strong potential for significant economic upside in the Project.

Global lithium-ion battery production capacity will increase by **521%** between 2016 and 2020




"China's government is forcing the electrification of its own auto industry, and quite literally so, as the bulk of China's auto manufacturers are state-owned, in one way or the other. Message from Beijing: make electric cars, or die."

Bertel Schmitt, Forbes, 25 November 2016

# Clean TeQ Metals continued

## THE ENERGY REVOLUTION

As the global automotive and energy storage industries stand on the edge of a technology and energy revolution, supplies of cobalt and nickel are becoming increasingly critical as raw materials in the production of cathodes for the lithium-ion battery market.

These metals can make up approximately 70 to 80 per cent of the cost of producing the battery cathode. The global battery industry already consumes approximately 50 per cent of global cobalt supply, with demand expected to soar as the world switches from internal combustion engines to electric drivetrains. Two-thirds of mined global cobalt supply comes from the Democratic Republic of Congo.

Importantly, the battery industry cannot directly use cobalt or nickel in metal form to manufacture battery cathode. The products must be supplied in the form of metal salts, usually hydrated metal sulphates such as cobalt sulphate ($CoSO_4.7H_2O$) and nickel sulphate ($NiSO_4.6H_2O$).

Clean TeQ's competitive advantage at Syerston is our proprietary Clean-iX® process that produces these metal salts in the primary extraction phase of processing, thereby saving significant re-handling and reprocessing costs. It does this by selectively loading nickel and cobalt onto a polymer ion exchange resin, and then stripping the metals in the form of a sulphate.

The demand for lithium-ion batteries is anticipated to grow strongly over the next decade as production of electric vehicles increases and batteries become an important component in utility-scale energy storage systems.

The combination of Syerston's unique mineral resource and Clean TeQ's proprietary technology uniquely positions the company to benefit from the strong forecast growth in demand for lithium batteries.

## A HIGHLY ATTRACTIVE INVESTMENT

### CATHODE MARKET

**LITHIUM-ION BATTERIES**
High-purity nickel and cobalt sulphate are key raw material inputs for the rapidly expanding lithium-ion battery industry

**RAW MATERIAL CHALLENGES**
Evolving supply constraints for high-purity nickel and cobalt sulphate, particularly with an auditable supply chain

### SYERSTON PROJECT

A STRATEGIC SOURCE OF RAW MATERIALS FOR THE LITHIUM-ION BATTERY INDUSTRY

**COBALT PLAY**
A rare, large and high-grade cobalt project outside Africa

**STRATEGIC JURISDICTION**
Customers require supply options outside Africa

**ATTRACTIVE ECONOMICS**
First quartile cost position with 39-year mine life

**DEVELOPMENT READY**
All key approvals and infrastructure in place

# VALUE CHAIN

## BATTERIES REQUIRE KEY METAL PRODUCTS

UPSTREAM → DOWNSTREAM

| RAW MATERIALS | COMPONENTS | BATTERY | PACKS | APPLICATIONS |
|---|---|---|---|---|
| Lithium<br>Cobalt<br>Graphite<br>Nickel | Precursor<br>Cathode<br>Anode<br>Electrolyte | Cells:<br>Cylindrical<br>Prismatic<br>Pouch | Small (4–7kWh)<br>Mid (10–100kWh)<br>Large (>500kWh) | Smartphones<br>EVs<br>Residential<br>Commercial |

## HIGHLIGHTS OF THE YEAR IN REVIEW

Excellent progress was made in advancing the development of the Syerston Project during the year in review.

### Key milestones include:

- October 2016 – Completed the Pre-Feasibility Study for the Syerston cobalt-nickel-scandium Project. The findings were exceptionally positive. The Study was based on a throughput capacity of 2.5Mtpa of autoclave ore feed from Syerston's near-surface resource for life of mine, focusing on an initial 20-year period.
- November 2016 – A Definitive Feasibility Study ('DFS') was commenced in late 2016 and targets completion in Q4 2017. The DFS will be used to assess the definitive economics of the Project for financing as well as providing the plan for the implementation of the Project.

  As part of the DFS, Clean TeQ's Resin-in-Pulp (RiP®) pilot plant at ALS Metallurgy in Perth was recommissioned. The plant processed 20 tonnes of Syerston ore to provide test work data to feed into the DFS and produce cobalt and nickel sulphate samples for customer testing and validation.
- February 2017 – Strategic partnership with and A$81m placement to Pengxin Mining.
- March 2017 – ASX All Ordinaries index inclusion.

# Contents



The company's 2017 Corporate Governance Statement was released to the ASX on 25th August 2017 and is available at www.cleanteq.com

# Directors' Report

For the year ended 30 June 2017

The directors present their report, together with the financial statements, for the consolidated entity consisting of Clean TeQ Holdings Limited (referred to hereafter as the 'Parent Entity', 'the Company' or 'Clean TeQ') and the entities it controlled (referred to hereafter as the 'Consolidated Entity'), for the financial year ended 30 June 2017, and the auditor's report thereon.

## Directors

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

Robert Friedland
(Co-Chairman and Non-Executive Director
– appointed 8 September 2016)

Jiang Zhaobai
(Co-Chairman and Non-Executive Director
– appointed 24 April 2017)

Sam Riggall
(Managing Director)

Li Binghan
(Non-Executive Director – appointed 24 April 2017)

Eric Finlayson
(Independent Non-Executive Director)

Roger Harley
(Independent Non-Executive Director)

Ian Knight
(Independent Non-Executive Director)

Stefanie Loader
(Independent Non-Executive Director
– appointed 28 June 2017, effective 1 July 2017)

Michael Spreadborough
(Independent Non-Executive Director
– appointed 8 December 2016)

Peter Voigt
(Executive Director
– resigned as a Director effective 30 June 2017)

## Principal activities

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

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

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

## Dividends

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

## Review of Operations

The loss for the Consolidated Entity after providing for income tax amounted to $12,184,000 (2016: loss after tax of $6,423,000).

During the financial year ended 30 June 2017, the Consolidated Entity's revenue from continuing operations increased to $1,612,000 (2016: $1,454,000) primarily due to an increase in contract income and interest income received in the current period.

The continuing development of the Syerston Project resulted in $13,619,000 of expenditure being capitalised as an exploration and evaluation asset during the financial year. This expenditure, along with the net cash outflows from operating activities of $1,504,000, was financed largely by capital raisings totalling $97,661,000 after issue costs.

Revenues from continuing operations were low during the financial year due to the fact that the Consolidated Entity's technologies remain at the early stages of commercialisation and as a result of the Syerston Project being at the pre-production development phase.

As a result of the above, the Consolidated Entity's net assets increased during the financial year by $90,659,000 to $113,384,000 (2016: $22,725,000). Working Capital, being current assets less current liabilities, amounts to a surplus of $85,671,000 (2016: $9,361,000), with cash reserves increasing from $7,226,000 to $88,863,000 during the financial year.

## Metals Division

The key focus for the Metals Division was advancing the development of the Consolidated Entity's Syerston Project in New South Wales, the background of which is discussed further below.

A Feasibility Study for a small scale Scandium Project at Syerston was completed in August 2016. The proposed scandium project involved mining and processing ore from a number of small pods with exceptionally high grades of scandium on the periphery of the larger nickel/cobalt resource. That Feasibility Study confirmed the robust economics of an operation to produce approximately 50 tonnes per annum of scandium oxide. For full details see the ASX announcement dated 30 August 2016.

In addition, the Company completed a Pre-Feasibility Study ('PFS') to assess the economics of a large scale operation at Syerston to produce nickel sulphate and cobalt sulphate products specifically targeted at the fast-growing lithium ion battery ('LiB') market.

The PFS assessed the economics of a mine with a designed throughput capacity of 2.5Mtpa of autoclave ore feed from Syerston's near-surface resource for life of mine, focusing on an initial 20-year period.

Table 1 below provides a summary of the key parameters and outcomes of the PFS Base Case, for full details see the ASX announcement dated 5 October 2016.

Table 1 – Syerston Nickel Cobalt Project PFS Base Case Overview

| Parameter | | Assumption / Output |
|---|---|---|
| Autoclave Throughput[1] | | 2.5Mtpa |
| Life of Mine | | 39 years |
| Initial operating period | | 20 years |
| Autoclave Feed Grade[2] (Year 3-20 average) | *Nickel* | 0.80% |
| | *Cobalt* | 0.14% |
| Production (Years 3-20 average) | *Nickel sulphate* | 85,135tpa |
| | *Cobalt sulphate* | 15,343tpa |
| Production (Years 3-20 average) | *Contained nickel* | 18,730tpa |
| | *Contained cobalt* | 3,222tpa |
| Recovery (Years 3-20 average) | *Nickel* | 94.2% |
| | *Cobalt* | 93.0% |
| Nickel price assumption[3] | | US$7.50/lb |
| Cobalt price assumption[3] | | US$12.00/lb |
| Exchange Rate | | AUD/USD 0.75 |
| Total Capital Cost[4] | | US$680M (A$906M) |
| C1 Cash Cost (Year 3-20 average)[5] | *before Co credits* | US$2.96/lb Ni |
| | *after Co credits* | US$0.89/lb Ni |
| Net Present Value ($NPV_8$) – post tax[6] | | US$891M (A$1,188M) |
| Internal Rate of Return (IRR) – post tax | | 25% |

Notes:

1. Designed processing throughput rate following a 24-month commissioning and ramp up period.
2. Includes pit selection, dilution and mining factors
3. Based on bank/broker long-term consensus market pricing for metal content only. Does not include premiums that are typically paid in the market for battery-grade nickel and cobalt sulphate
4. Includes a US$62M (A$83M) contingency on capital costs
5. C1 cash cost excludes potential by-product revenue from scandium oxide sales and royalties
6. Post tax, 8% discount, 100% equity, real terms

Following an initial commissioning and ramp up period, the Nickel & Cobalt Project was estimated to generate free cashflow of approximately US$300 million (A$400 million) per annum over years 3-10 at bank/broker long term consensus forecast nickel and cobalt prices and a AUD/USD 0.75 exchange rate.

The large scale nickel & cobalt resource assessed through the PFS also hosts significant quantities of scandium, however, given the scandium market is still developing, the PFS Base Case assumed no scandium revenue. In order to demonstrate the significant upside potential that exists from producing scandium oxide as a by-product of nickel and cobalt production, the Company prepared an Upside Case which includes the capital and operating cost and revenue impact of scandium production. The Upside Case analysis, which includes the impact of sales of 50 tonnes per annum of scandium oxide, is presented in Table 2 below.

Table 2 – Syerston Nickel Cobalt Project Upside Case Overview

| Parameter | | Assumption / Output |
|---|---|---|
| Autoclave Feed Grade[1] (Years 3-20 average) | *Scandium* | **53ppm** |
| Recovery (Years 3-20 average) | *Scandium* | **85%** |
| Production (Years 3-20 average) | *Scandium oxide* | **50tpa $Sc_2O_3$** |
| Scandium oxide price assumption | | **US$1,500/kg** |
| Additional Capital Cost for Scandium Plant | | **US$15M (A$20M)** |
| Upside Case Total Capital Cost | | **US$695M (A$927M)** |
| C1 Cash Cost (Year 3-20 average)[2] | *before Co & Sc credits* | **US$3.12/lb Ni** |
| | *after Co & Sc credits* | **-US$0.76/lb Ni** |
| **Net Present Value ($NPV_8$) – post tax** | | **US$1,233M** |
| **Internal Rate of Return (IRR) – post tax[3]** | | **30%** |

Notes:

1. Includes pit selection, dilution and mining factors applied
2. C1 cash cost does not include royalties
3. Post tax, 8% discount, 100% equity, real terms

Table 2 above highlights the potential for scandium to provide an important source of additional revenue for the Nickel / Cobalt Project. The incremental capital and operating cost of generating that additional scandium revenue is much lower than could be achieved by construction of a small-scale, stand-alone plant, focused only on extraction from the highest-grade scandium zones surrounding the nickel / cobalt resource. As scandium recovery would form part of the primary processing route, it allows for a reliable supply of significant quantities of scandium oxide to customers for the life of the mine. At 2.5Mtpa of ore throughput, the plant has the potential, on average, to produce circa 170tpa of scandium oxide over the first twenty years of operation.

The mine plan presented in the Upside Case does not rely on the vast majority of the very high grade scandium resource which sits adjacent to the nickel/cobalt deposit (for full details of the scandium only resource see the ASX announcement of 17 March 2016). This provides the Company with the ability to readily and significantly increase scandium production in future years for virtually no additional capital cost by adjusting feed to the plant. It also sends a very strong signal to potentially high-volume customers of scandium that long-term, low cost and reliable supply will be delivered to the market.

Given the favourable Project economics demonstrated by the PFS and the strong offtake demand that is currently being indicated by potential customers in the LiB sector, the Company has commenced a Definitive Feasibility Study ('DFS') for the Project. The DFS will be used to assess the definitive economics of the Project for financing as well as providing the plan for the implementation of the Project.

As part of the DFS activities the Company re-commissioned its Resin-in-Pulp (RiP®) pilot plant at ALS Metallurgy in Perth. The purpose of the pilot campaign was to generate samples of nickel and cobalt sulphate eluate solution for further testing to confirm the flow sheet design for the refinery section of the processing plant and to provide samples of nickel sulphate and cobalt sulphate for potential offtake customers.

The pilot campaign successfully processed a bulk sample of approximately 20 tonnes of Syerston ore to produce samples of high purity nickel and cobalt sulphate. Nickel and cobalt sulphate (salts) are the final high value product which will be sold to manufacturers of lithium ion battery cathode precursor material.

In June and July 2017, the production of samples of high purity nickel sulphate (NiSO4.6H2O) and cobalt sulphate (CoSO4.6H2O) was finalised from the processing of Syerston ore at the Company's nickel and cobalt recovery and purification demonstration plant at ALS Metallurgy in Perth. The samples were dispatched to a number of potential customers in the lithium ion battery supply chain for testing and analysis.

For nickel and cobalt sulphate offtake, Clean TeQ's objective is to agree binding long term nickel and cobalt sulphate sales contracts with a small number of high calibre counterparties during 2017 while the DFS is being completed. Clean TeQ has met with numerous companies in the LiB cathode supply chain from traders and cathode makers through to electric vehicle manufacturers.

The Company has received strong expressions of interest for offtake of the Syerston nickel and cobalt sulphate materials from a number of these parties. A number of potential offtake counterparties visited the pilot plant in Perth and the site in NSW during late 2016 and early 2017. Discussions are ongoing. The Company also continues to progress a range of activities which are aimed at facilitating and promoting the use of scandium aluminium alloys for high strength light weight applications with the ultimate aim of securing offtake contracts for scandium oxide, given the highly value accretive impact of producing scandium as a by-product to nickel and cobalt sulphate production.

## Water Division

The Clean TeQ Water Division continues to promote and demonstrate our Continuous Ion Exchange Technology (CIF®) with a particular emphasis on the Chinese water market, the largest and most rapidly growing water treatment market in the world. CIF® makes available a water treatment solution to many Chinese industries including power, mining, oil and gas and municipal.

Clean TeQ has formed a Chinese incorporated joint venture (JV Company) with Jinzhong Hoyo Municipal Urban Investment & Construction Co., Ltd (Hoyo) to pursue water treatment opportunities in China's Shanxi Province utilising Clean TeQ's water purification technology. As previously announced, the JV Company has been awarded an initial contract to build, own and operate a Clean TeQ CIF® water treatment plant to treat up to 13,000 tonnes of effluent per day for a 20 year period at a waste water treatment plant owned by Hoyo.

The proposed project contract provides for the JV Company to be paid a service fee of 1RMB per tonne of water treated, subject to a minimum payment for 9,000 tonnes per day. Clean TeQ has actively pursued a build, own and operate business model, targeting generation of long term sustainable cashflows and favourable economic returns. Design and engineering of the plant has been completed and the plans have been submitted to the Shanxi Urban & Rural Planning Design Institute for approval. The Design Institute has provided an initial indication that approval of the plans will be forthcoming, allowing for an environmental impact assessment to be commenced. Final formal approval of the plans and approval of the environmental impact assessment is anticipated to be received shortly with construction anticipated to commence in late 2017.

In May 2017, the Company announced that its wholly owned subsidiary Clean TeQ Water Pty Ltd had been awarded a significant contract by Multotec Process Equipment Pty Ltd (Multotec) to design, procure and commission a Clean TeQ proprietary Continuous Ionic Filtration (CIF®) wastewater treatment solution at a minerals processing plant currently being constructed in Oman.

The Company has also executed an exclusive Technology Distribution Agreement with Multotec for the African continent. Multotec is a leading provider of high-quality mineral processing equipment and solutions to the mining, mineral processing, petrochemical and power generation industries. Multotec has branches throughout Africa, Australia, Asia, South America and North America. Over four decades of developing, manufacturing, installing and maintaining processing equipment has made Multotec a global leader in custom, application specific mineral processing technology.

The Company has also been contracted on commercial terms to perform feasibility and engineering for a number of other ion exchange water treatment systems including:

- A CIF® wastewater treatment solution to treat tailings water to a standard to allow discharge at a gold mining operation in Australia. The technology removes toxic pollutants sulphate, antimony and arsenic from a waste water stream; and
- A Clean-iX® uranium recovery plant to remove low concentrations of uranium from process liquors at a copper/cobalt processing operation in Africa.

Upon delivery of the feasibility and engineering, the Company is confident that at least one of these opportunities will result in a commercial supply contract to deliver a Clean TeQ water treatment solution.

In February 2017, the Company agreed a partnership with Ionic Industries Ltd for the development and commercialisation of graphene-oxide based water filtration technologies. Ionic is a commercialisation partner of Monash University and has secured a licence from Monash for intellectual property relating to a range of graphene oxide based technologies. Graphene oxide ('GO') is regarded as a highly versatile industrial material with its ability to form super-strong ultra-thin 2-D matrices.

Researchers at Monash University have developed a method of producing GO which is suitable for the production of water and wastewater filtration products. The method has the potential to be readily and economically scaled to meet commercial needs. The partnership will see Clean TeQ funding a $200,000 programme of works for product development and testing with the Monash research team and at Clean TeQ's facilities.

Subject to Clean TeQ successfully completing this product development and testing phase prior to 30 September 2018, Clean TeQ may, at its election, form a joint venture with Ionic (75/25 Clean TeQ/Ionic) for the purpose of bringing the products to market in the field of water purification. The joint venture will be funded by the parties according to their pro-rata equity share.

## Significant changes in the state of affairs

On 8 September 2016, the Company announced the appointment of Mr Robert Friedland, as Co – Chairman and non-executive director.

During the past 20 years of his career, Mr. Friedland has founded and led two prominent, international mining entities under the Ivanhoe Mines banner. He is Executive Chairman and a director of the present Africa-focused Ivanhoe Mines Ltd., which is building two major new mines in South Africa and the Democratic Republic of Congo. It formerly operated under the Ivanplats name after its founding in 1998 and later assumed the Ivanhoe name in 2013.

The original Ivanhoe Mines, founded in 1994, had extensive mining and exploration interests in the Asia Pacific Region. Mr. Friedland was Executive Chairman and Chief Executive Officer of the initial Ivanhoe Mines until 2012, and also was President from 2003 to 2008. He directed Ivanhoe Mines' assembly of a portfolio of interests in several countries over 16 years and led the company's discoveries and initial development of the Oyu Tolgoi copper-gold-silver deposits in southern Mongolia. Rio Tinto acquired a controlling interest in the company in 2012; the company was required to relinquish the Ivanhoe name and became Turquoise Hill Resources, which is continuing its development of Oyu Tolgoi.

Mr. Friedland also is Chairman and President of Ivanhoe Capital Corporation, his family's private, Singapore-based company founded in 1987 that specializes in providing venture capital, project financing and related services for international business enterprises, predominantly in the minerals, energy and communications technologies sectors. He was inducted into the Canadian Mining Hall of Fame in 2016.

On 3 November 2016, the Company announced its agreement to a placement of 38,461,538 new shares at an issue price of $0.39 per share to raise proceeds of $15,000,000. Of this placement, 33,333,333 shares were issued to AustralianSuper, a large Australian institutional investor. The balance of 5,128,205 shares was issued to a number of institutional investors who are existing shareholders and clients of BW Equities.

On 8 December 2016, the Company announced the appointment of Mr Michael Spreadborough as a non-executive director.

Mr Spreadborough is a mining engineer with extensive experience in the development and operation of mineral resources projects spanning a range of commodities including copper, gold, uranium, lead, zinc and iron ore. Over the past 20 years Mr Spreadborough has held senior executive roles with a number of mining companies including Chief Operating Officer of Sandfire Resources and Inova Resources Ltd (formerly Ivanhoe Australia), General Manager – Coastal Operations for Rio Tinto and General Manager – Mining for WMC and later Vice President – Mining for BHP Billiton at the world-class Olympic Dam mine in South Australia.

On 27 February 2017, the company announced the appointment of Mr Scott Magee as Project Director for the Syerston Nickel/Cobalt/Scandium Project. Mr Magee is a project management executive with 28 years' experience in project development, project delivery and project governance. Prior to joining Clean TeQ, Mr Magee worked for BHP Billiton as the Vice President Projects where he was responsible for project governance and establishing best practice processes across a $15 billion annual capital projects portfolio. Prior to BHP Billiton, Mr Magee held engineering and project management roles with Hatch and operational roles with Alcoa.

On 28 March 2017, the company announced the issue of shares to Pengxin International Mining Co. Ltd. ('Pengxin Mining'), part of the Shanghai Pengxin Group Co. Ltd ('Shanghai Pengxin Group'), Pengxin Mining agreed to make an initial private placement investment of approximately $81,000,000 in Clean TeQ, to be used primarily for the development of Syerston, by purchasing 92,518,888 new Clean TeQ shares at an issue price of A$0.88 per share.

On 24 April 2017, the Company announced the appointment of Mr Jiang Zhaobai as Co-Chairman and non-executive director.

Mr Jiang is an engineer with an EMBA from China Europe International Business School. He is currently the Chairman of Shanghai Pengxin Group Co Ltd. He is also the Executive Chairman of Shanghai Entrepreneurs Association, the Vice President of China Non-governmental Enterprise Directors Association and Economic Advisor to China Development Bank. Since graduating from university in the 1980s, Mr Jiang has participated in numerous engineering and construction projects. In 1988, he founded his own real estate development company. In 1997, Mr Jiang founded the Shanghai Pengxin Group Co Ltd, with Mr Jiang as the founding Chairman, a role he continues in as at this date.

Under Mr Jiang's leadership, Shanghai Pengxin Group has successfully developed a number of significant property projects, amounting to a total of six million square meters. Starting from real estate development including both residential and commercial as well as hotel industry, the group has diversified into a range of other sectors including modern agriculture, mining, environmental science & technology and financial investment. The group is now a diversified conglomerate with controlling interests in four listed companies in China.

On 24 April 2017, the Company announced the appointment of Mr Li Binghan as a non-executive director.

Mr Li is Director of the Risk Control & Legal Department of Pengxin Mining. Mr Li commenced his career with Henan Province Judicial Bureau in 1996. After five years in the Judicial Bureau, Mr Li began his legal career with Shanghai Pudong Law firm in 2003, focusing on foreign direct investment and mergers and acquisitions. In 2012 Mr Li joined Shanghai Co-effort Law Firm, working in the field of intellectual property law. Mr Li joined Pengxin Mining in 2015. Mr Li has a Masters in International Law, Law School, Fudan University, a Masters in Intellectual Property Law, from the Law School, of the Queen Mary University of London, and a Qualification Certificate for Attorney at Law and a Qualification Certificate for Patent Attorney.

On 23 May 2017, the Company announced that the NSW Government Department of Planning and Environment had approved Clean TeQ's application to modify the Development Consent for the Syerston Nickel/Cobalt Scandium Project in NSW. The Development Consent confirms the approval for the Company to carry out mining operations at the mine for 21 years from the day upon which mining operations start in order to produce and transport up to 180 tonnes of scandium oxide and up to 40,000 tonnes of nickel and cobalt metal equivalents (as either sulphide or sulphate precipitate products) from the mine.

On 28 June 2017, the Company announced the appointment of Ms Stefanie Loader as a non-executive director, effective 1 July 2017.

Ms Stefanie (Stef) Loader is a mining industry executive with broad international experience having worked in exploration, project evaluation and development, mining and corporate roles across seven countries and four continents. Residing in Central West NSW, Stef was most recently Managing Director of Northparkes Copper and Gold Mine for CMOC International. She successfully transformed the business to be one of the lowest cost copper producers globally while also managing the sale and transition of ownership from Rio Tinto to CMOC in 2013-14. Ms Loader has a Bachelor of Science with Honours in Geology from the University of Western Australia and a Graduate Certificate in Applied Statistics from Murdoch University.

Mr Peter Voigt resigned as a Director effective 30 June 2017. Mr Voigt will remain in his executive role as Chief of Technology. Mr Voigt founded the Company in the early 1990s and led the company through its initial public offering in 2007. Mr Voigt has been instrumental in the identification, acquisition and development of the Company's suite of ion exchange technologies.

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

## Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

## Likely developments and expected results of operations

The Consolidated Entity will continue to pursue its objectives of advancing the development of the Syerston Project as well as its suite of technology applications for the treatment of water for use by the water, municipal, industrial and resources sectors. This will include further commercial development of the applications that are both currently in use and in development and advancing the market penetration strategies to enable the Consolidated Entity to fully exploit the potential of its products in the Metals and Water Divisions.

The Consolidated Entity intends to fund its development through capital raisings as well as operational revenues from contracts entered into, and through securing additional contracts throughout the year. The Consolidated Entity will consider both debt and equity funding should the need arise.

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

## Environmental regulation

The Consolidated Entity has an interest in the exploration licence disclosed in note 17. The authorities responsible for the granting of these licences require the tenement holder to comply with the terms and conditions of the licence and all directions given to it by those authorities.

The terms and conditions of any exploration licence typically include certain environmental conditions, covering such matters as Aboriginal cultural heritage, threatened species, habitat, heritage items, trees and vegetation, roads and tracks, groundwater, streams and watercourses, erosion and sediment controls, preventing and monitoring pollution, refuse, chemicals, fuels and waste materials, transmission lines and pipelines, drilling, rehabilitation of the land, environmental reporting, and site security. There have been no known breaches of the Consolidated Entity's licence conditions or any other environmental regulation during the financial year or up until the date of this report.

## Information on directors

| | |
|---|---|
| Name: | Mr Robert Friedland |
| Title: | Co-Chairman and Non-Executive Director |
| Qualifications: | Bachelor of Arts in Political Science from Reed College, Oregon, USA |
| Experience and Expertise: | Mr. Friedland was appointed Co-Chairman of Clean TeQ on 8 September 2016. During the past 20 years of his career, Mr. Friedland has founded and led two prominent, international mining entities under the Ivanhoe Mines banner. He is Executive Chairman and a director of the present Africa-focused Ivanhoe Mines Ltd., which is building two major new mines in South Africa and the Democratic Republic of Congo. It formerly operated under the Ivanplats name after its founding in 1998 and later assumed the Ivanhoe name in 2013. The original Ivanhoe Mines, founded in 1994, had extensive mining and exploration interests in the Asia Pacific Region. Mr. Friedland was Executive Chairman and Chief Executive Officer of the initial Ivanhoe Mines until 2012, and also was President from 2003 to 2008. He directed Ivanhoe Mines' assembly of a portfolio of interests in several countries over 16 years and led the company's discoveries and initial development of the Oyu Tolgoi copper-gold-silver deposits in southern Mongolia. Rio Tinto acquired a controlling interest in the company in 2012; the company was required to relinquish the Ivanhoe name and became Turquoise Hill Resources, which is continuing its development of Oyu Tolgoi. Mr. Friedland also is Chairman and President of Ivanhoe Capital Corporation, his family's private, Singapore-based company founded in 1987 that specializes in providing venture capital, project financing and related services for international business enterprises, predominantly in the minerals, energy and communications technologies sectors. He was inducted into the Canadian Mining Hall of Fame in 2016. |
| Other current directorships: | Executive Chairman, Ivanhoe Mines Ltd.<br>Chairman & President, Ivanhoe Capital Corporation<br>Chairman & Co-Founder, I-Pulse Inc.<br>Chairman & Chief Executive Officer, High Power Exploration Inc.<br>Chairman, Pu Neng Energy<br>Co-Chairman, SK Global Entertainment<br>Chairman, Ivanhoe Pictures<br>Ivanhoe Industries & Kietta |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Nil |
| Interests in shares: | 94,518,888 fully paid ordinary shares |
| Interests in options: | Nil |
| Interests in rights: | Nil |

| | |
|---|---|
| Name: | Mr Jiang Zhaobai |
| Title: | Co-Chairman and Non-Executive Director |
| Qualifications: | EMBA, China International Business School |
| Experience and Expertise: | Mr Jiang took part in numerous engineering and construction projects following graduation from university in the 1980's. He later founded his own real estate development company in 1988. In 1997, Shanghai Pengxin Group Co., Ltd. was established with Mr Jiang as founding Chairman and he remains in that role to this date. Under Mr Jiang's leadership, Shanghai Pengxin Group has successfully developed a number of significant property projects, amounting to a total of six million square meters. Starting from real estate development including both residential and commercial as well as hotel industry, the group has diversified into a range of other sectors including modern agriculture, mining, environmental science and technology and financial investment. The group is now a diversified conglomerate with controlling interests in four listed companies in China. He was appointed a Director of Clean TeQ on 24 April 2017. |

# Directors' Report

continued

| | |
|---|---|
| Other current directorships: | Chairman of Shanghai Pengxin Group; Executive Chairman of Shanghai Entrepreneurs Association; Vice President of China Non-governmental Enterprise Directors Association; Economic Adviser to China Development Bank |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Nil |
| Interests in shares: | 92,518,888 fully paid ordinary shares |
| Interests in options: | Nil |
| Interests in rights: | Nil |

| | |
|---|---|
| Name: | Mr Sam Riggall |
| Title: | Managing Director & Chief Executive Officer |
| Qualifications: | LLB (Hons), B.Com., MBA |
| Experience and Expertise: | Mr Riggall is a graduate in law and commerce from Melbourne University and has an MBA from Melbourne Business School. He was previously Executive Vice President of Business Development and Strategic Planning at Ivanhoe Mines Ltd. Prior to that Mr Riggall worked in a variety of roles in Rio Tinto for over a decade covering project generation and evaluation, business development and capital market transactions. Mr Riggall was appointed to the Clean TeQ Board and to the position of Chairman on 4 June 2013. Mr Riggall was appointed Chairman and Chief Executive Officer effective 1 July 2015. Mr Riggall resigned as Co-Chairman and assumed the role of Managing Director effective 24 April 2017. |
| Other current directorships: | Syrah Resources Limited |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Nil |
| Interests in shares: | 6,917,944 fully paid ordinary shares |
| Interests in options: | 8,000,000 unlisted options exercisable at $0.1574 (15.74 cents) per option and 8,000,000 unlisted options exercisable at $0.2305 (23.05 cents) per option and 8,000,000 unlisted options exercisable at $0.31 (31 cents) per option |
| Interests in rights: | 1,311,025 |

| | |
|---|---|
| Name: | Mr Roger Harley |
| Title: | Independent Non-Executive Director |
| Qualifications: | Mr Harley has a science degree from the University of Melbourne and is a Fellow of the Australian Institute of Company Directors. |
| Experience and Expertise: | Mr Harley is a founder and principal of independent corporate advisory firm, Fawkner Capital. Previously he worked for 11 years for Deutsche Bank, and held positions including Director of Corporate Finance and Director of Equity Capital Markets. His current roles also include Director of People and Parks Foundation and Trustee of the Alfred Deakin Lecture Trust. Mr Harley has had various appointments by the Commonwealth Government that related to the oversight of innovation and venture capital programs and policies. These include membership of the Pooled Development Funds Registration Board, the Industry Research and Development Board and Innovation Australia. His previous board positions include Director of Medibank Private. He was appointed a Director of Clean TeQ on 1 June 2010. |
| Other current directorships: | Nil |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Mr Harley is a member of the Audit Committee and Chair of the Nomination and Remuneration Committee. |
| Interests in shares: | 1,830,812 fully paid ordinary shares (including 455,406 owned by spouse) |

| | |
|---|---|
| Interests in options: | 750,000 unlisted options exercisable at $0.2712 (27.12 cents) per option; 375,000 unlisted options exercisable at $0.3100 (31.00 cents) per option |
| Interests in rights: | Nil |

| | |
|---|---|
| Name: | Mr Ian Knight |
| Title: | Independent Non-Executive Director |
| Qualifications: | FCA, CPA |
| Experience and Expertise: | Mr Knight is a graduate in Business Studies and is also a fellow of the Institute of Chartered Accountants, a member of the Australian Society of Certified Practicing Accountants, an Associate Fellow of the Australian Institute of Management and a member of the Institute of Company Directors. His experience includes presenting and working with boards of public, private and private equity ownership, State and Federal Governments and extensive experience in strategising and implementing mergers, acquisitions, divestments and capital raising initiatives. Mr Knight was also formerly a Partner of KPMG where he held the position of Head of Mergers and Acquisitions and Head of Private Equity for KPMG Corporate Finance. Currently he is Managing Director of Axsia Group and a partner of nem Australasia Pty Ltd He was appointed a director of Clean TeQ on 8 July 2013. |
| Other current directorships: | Graziers' Investment Company Limited (public unlisted company) |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Mr Knight is a member of the Nomination and Remuneration Committee and Chair of the Audit Committee. |
| Interests in shares: | 1,025,557 fully paid ordinary shares |
| Interests in options: | 750,000 unlisted options exercisable at $0.2712 (27.12 cents) per option; 375,000 unlisted options exercisable at $0.3100 (31.00 cents) per option |
| Interests in rights: | Nil |

| | |
|---|---|
| Name: | Mr Eric Finlayson |
| Title: | Independent Non-Executive Director |
| Qualifications: | BSc (Honours) in Applied Geology |
| Experience and Expertise: | Mr Finlayson is a geologist with over thirty years' experience in Australia and overseas. Over 24 years with Rio Tinto Mr Finlayson held a number of key executive roles including regional exploration manager for Canada, Director of Exploration for the Australasian region and 5 years as Global Head of Exploration based in London. Mr Finlayson also served as CEO of Rio Tinto Coal Mozambique following Rio Tinto's takeover of Riversdale Mining in 2011. Mr Finlayson is currently President of High Power Exploration. He was appointed a director of Clean TeQ on 16 September 2015. |
| Other current directorships: | Cordoba Minerals Corp. and Kaizen Discovery Inc. |
| Former directorships (last 3 years): | Apollo Minerals Limited (resigned 7 July 2016) |
| Special responsibilities: | Mr Finlayson is a member of the Nomination and Remuneration Committee and Audit Committee |
| Interests in shares: | Nil |
| Interests in options: | 750,000 unlisted options exercisable at $0.2712 (27.12 cents) per option; 375,000 unlisted options exercisable at $0.3100 (31.00 cents) per option |
| Interests in rights: | Nil |

| | |
|---|---|
| Name: | Mr Michael Spreadborough |
| Title: | Independent Non-Executive Director |
| Qualifications: | BEng (Mining Engineering); MBA, AICD |
| Experience and Expertise: | Mr Spreadborough is a mining engineer with extensive experience in the development and operation of mineral resources projects spanning a range of commodities including copper, gold, uranium, lead, zinc and iron ore. Over the past 20 years Mr Spreadborough has held senior executive roles with a number of mining companies including Chief Operating Officer of Sandfire Resources and Inova Resources Ltd (formerly Ivanhoe Australia), General Manager – Coastal Operations for Rio Tinto and General Manager – Mining for WMC and later Vice President – Mining for BHP Billiton at the world-class Olympic Dam mine in South Australia. He was appointed a director of Clean TeQ on 8 December 2016. |
| Other current directorships: | Nusantara Resources Limited |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Chair of the Sustainability and Risk Committee |
| Interests in shares: | Nil |
| Interests in options: | Nil |
| Interests in rights: | Nil |

| | |
|---|---|
| Name: | Mr Li Binghan |
| Title: | Non-Executive Director |
| Qualifications: | Masters in International Law, Law School, Fudan University, Masters in Intellectual Property Law, Law School, Queen Mary University of London and a Qualification Certificate for Attorney at Law and Qualification Certificate for Patent Attorney |
| Experience and Expertise: | Mr Li is a lawyer with more than 20 years' experience. He is currently the Director of the Risk Control and Legal Department of Pengxin Mining. He commenced his career with Henan Province Judicial Bureau in 1996. After five years in the Judicial Bureau, Mr Li began his legal career with Shanghai Pudong Law firm in 2003, focusing on foreign direct investment and mergers and acquisitions. In 2012 Mr Li joined Shanghai Co-effort Law Firm, working in the field of intellectual property law. Mr Li joined Pengxin Mining in 2015. He was appointed a Director of Clean TeQ on 24 April 2017. |
| Other current directorships: | Nil |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Member of the Sustainability and Risk Committee |
| Interests in shares: | Nil |
| Interests in options: | Nil |
| Interests in rights: | Nil |

| | |
|---|---|
| Name: | Ms Stefanie Loader |
| Title: | Independent Non-Executive Director |
| Qualifications: | Bachelor of Science with Honours (Geology), University of Western Australia, Graduate Certificate in Applied Statistics, Murdoch University; Member AIG (post nominal MAIG); Graduate Member AICD (post nominal GAICD) |

| | |
|---|---|
| Experience and Expertise: | Ms Stefanie (Stef) Loader is a mining industry executive with broad international experience having worked in exploration, project evaluation and development, mining and corporate roles across seven countries and four continents. Residing in Central West NSW, Ms Loader was most recently Managing Director of Northparkes Copper and Gold Mine for CMOC International. A geologist and statistician by training, Ms Loader began her career as an exploration geologist in Western Australia and was then part of the discovery team for the Khanong copper deposit at Sepon in Laos in the late 1990s. After exploration and evaluation roles in the Americas, Ms Loader was assigned to the office of Rio Tinto Chief Executive in London where she then worked on global exploration strategy and prioritisation as Exploration Executive. Ms Loader also led the development of the Bunder diamond project in India for four years, including the signing of a landmark development agreement with the State of Madhya Pradesh in support of the project. Ms Loader was appointed a Director of Clean TeQ on 28 June 2017, with effect from 1 July 2017. |
| Other current directorships: | Nil |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Member of the Sustainability and Risk Committee |
| Interests in shares: | Nil |
| Interests in options: | Nil |
| Interests in rights: | Nil |

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

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

## Company Secretary

Ms Melanie Leydin was appointed to the position of Company Secretary on 7 July 2011. Ms Leydin is a Chartered Accountant and principal of Leydin Freyer, a chartered accounting firm specializing in accounting and company secretarial services. Ms Leydin has over 20 years' experience in the accounting profession and is company secretary for a number of junior mining, bioscience, biotechnology and IT entities listed on ASX.

## Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the financial year ended 30 June 2017, and the number of meetings attended by each director were:

| | Full Board Meeting | | Audit Committee | | Nomination and Remuneration Committee | |
|---|---|---|---|---|---|---|
| | Attended | Held | Attended | Held | Attended | Held |
| Robert Friedland | 3 | 3 | – | – | – | – |
| Jiang Zhaobai | – | 1 | – | – | – | – |
| Sam Riggall | 5 | 5 | – | – | – | – |
| Peter Voigt | 5 | 5 | – | – | – | – |
| Roger Harley | 5 | 5 | 2 | 2 | 3 | 3 |
| Ian Knight | 5 | 5 | 2 | 2 | 3 | 3 |
| Eric Finlayson | 5 | 5 | 2 | 2 | 3 | 3 |
| Mike Spreadborough | 3 | 3 | – | – | – | – |
| Li Binghan | 1 | 1 | – | – | – | – |

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

No meetings of the board were held during the period that Stefanie Loader was appointed as a director and the end of the financial year.

## Remuneration report (audited)

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

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

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

B. Details of remuneration

C. Service agreements

D. Share-based compensation

E. Additional information

F. Additional disclosures relating to key management personnel.

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

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

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity.

Key management personnel as identified for the purposes of this report by the criteria set out above are as follows:

- Robert Friedland – Co-Chairman and Non-Executive Director (appointed 8 September 2016)
- Jiang Zhaobai – Co-Chairman and Non-Executive Director (appointed 24 April 2017)
- Sam Riggall – Managing Director and Chief Executive Officer
- Peter Voigt – Executive Director
- Li Binghan – Non-Executive Director (appointed 24 April 2017)
- Eric Finlayson – Independent Non-Executive Director
- Roger Harley – Independent Non-Executive Director
- Ian Knight – Independent Non-Executive Director
- Stefanie Loader – Independent Non-Executive Director (appointed 28 June 2017, with effect from 1 July 2017)
- Mike Spreadborough – Independent Non-Executive Director (appointed 8 December 2016)
- Ben Stockdale – Chief Financial Officer
- Scott Magee – Syerston Project Director (appointed 27 February 2017)

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

Compensation levels for key management personnel and the Company Secretary are competitively set to attract and retain appropriately qualified and experienced directors and executives. As and when required the Nomination and Remuneration Committee has access to independent advice on the appropriateness of compensation packages given trends in comparative companies and the objectives of the compensation strategy. Independent advice was sought during the 2017 financial year. The Nomination and Remuneration Subcommittee of the Board has undertaken to implement these recommendations during financial year 2018. See the ASX Announcement dated 15 June 2017 for more details.

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

The compensation structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the relevant segment's performance;
- the Consolidated Entity's performance including:
  - (i) the Consolidated Entity's earnings;
  - (ii) the growth in share price and delivering constant returns on shareholder wealth; and
  - (iii) the amount of incentives within each key management person's compensation.

The directors' and executives' remuneration and incentive policies and practices are performance based and aligned to the Consolidated Entity's vision, values and overall business objectives. They are designed to motivate key management personnel to pursue the Consolidated Entity's long term growth and success. Compensation packages include a mix of fixed and variable compensation and short and long-term performance-based incentives.

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

## Fixed remuneration

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

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

## Performance-linked remuneration

Performance-linked compensation, including both short-term and long-term incentives, is designed to reward employees for meeting or exceeding their financial and personal objectives. The short-term incentive ('STI') is an "at risk" bonus provided in the form of cash, while the long-term incentive ('LTI') is provided as options and performance rights over ordinary shares of the Company under the rules of the Employee Incentive Plan. The plans provide for Board discretion on the provision of bonuses and options.

During the 2017 financial year the Board exercised its discretion and authorised the issue of options and performance rights to a number of employees. In addition, STI bonuses relating to performance against FY16 KPI's of $50,000 were paid to staff during the 2017 financial year, but no key management personnel were paid a bonus. Refer to section E of this remuneration report for an analysis of the Consolidated Entity's recent performance and link to overall remuneration.

## Short Term Incentive

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

The financial performance objectives include performance compared to budgeted amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, safety and environmental performance, customer satisfaction and staff development.

At the end of the financial year, the Nomination and Remuneration Committee assesses the actual performance of the Consolidated Entity, the relevant segment and individual against the KPI's set at the beginning of the financial year. A percentage of the pre-determined maximum bonus amount is awarded at the Board's discretion and depending on results. No bonus is awarded where performance falls below the minimum.

## Long Term Incentive

The LTI consists of a grant of options to directors and key executives, administered under the Company's shareholder approved Employee Incentive Plan ('EIP'). The EIP provides for directors and key executives to receive, for no consideration, options over ordinary shares of the Company at specified exercise prices as determined by the Board. The grant of options is intended to align the interests of directors and key executives with other owners of the Company. The ability to exercise the options is conditional upon each director and key executive's ongoing employment by the Company and other applicable performance hurdles determined by the Board from time to time.

The LTI also consists of a grant of performance rights to employees, administered under the terms of the EIP. The grant of performance rights is intended to align the interests of employees with other owners of the Company. Performance rights are granted at the discretion of the Board to employees by way of issue at nil cost both at the time of grant and vesting. Performance rights are granted on an annual basis, with the at-risk value of the annual grant over the vesting period, typically three years, representing a percentage of the employee's total fixed remuneration, priced at the time of grant. Vesting is contingent on the Consolidated Entity meeting or exceeding a performance hurdle over the performance period. The performance hurdle involves an assessment of the Company's total shareholder returns relative to a comparator group of companies. Vesting is also subject to the continued employment of the employee.

The EIP, which was adopted on 19 July 2017, states that the total number of options issued pursuant to the EIP must not exceed 5% of the total number of issued shares in the Company, which excludes options and performance rights issued pursuant to shareholder approval or to non-employees. The Nomination and Remuneration Committee, in conjunction with the Board, determines the number of options performance rights and the terms and conditions associated with those options and performance rights that may be issued to employees each year. The criteria used to assess the number of options and performance rights issued include the Consolidated Entity's performance, individual performance and an industry analysis of best practice. The method of assessment was chosen as it provides the Nomination and Remuneration Committee with an objective means of measuring performance against expected performance.

## Short Term and Long Term Incentive Structure

The Nomination and Remuneration Committee considers that the above performance-linked compensation structure will generate the desired outcome in respect of attracting and retaining high calibre employees.

In the current year the Consolidated Entity has achieved many of its operational targets, however, financial results remained loss-making due to the fact that the Consolidated Entity's technologies remain at the early stages of commercialisation and as a result of the Syerston Project being at the pre-production development phase. The Nomination and Remuneration Committee will conduct a formal assessment of employees' key performance indicators and the Consolidated Entity's performance as a whole during the 2018 financial year to determine if any STI bonus is to be awarded in respect of the 2017 financial year.

## Non-Executive Directors

The Company Constitution provides for Non-Executive Directors to be paid or provided remuneration for their services the total amount or value of which must not exceed an aggregate maximum of $1,000,000 per annum or such other maximum amount determined from time to time by the Company in a general meeting.

The aggregate maximum sum will be apportioned among them in such manner as the Directors in their absolute discretion determine. Non-Executive Directors fees are set based on advice from external advisors with reference to fees paid to other Non-Executive Directors of comparable companies. Non-Executive Directors do not receive performance related remuneration. Directors' fees cover all main Board and Committee activities.

Non-Executive Directors are entitled to be paid travelling and other expenses properly incurred by them in attending Directors' or general meetings of the Company or otherwise in connection with the business of the Consolidated Entity. No retirement benefits are to be paid to Non-Executive Directors. The Company determines the maximum amount for remuneration, including thresholds for share-based remuneration, for Directors by resolution.

## Other benefits

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

## Voting and comments made at the Company's 22 November 2016 Annual General Meeting ('AGM')

The Company received 97.2% of 'for' votes in relation to its remuneration report for the year ended 30 June 2016. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

## B. Details of remuneration (audited)

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

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share based payments | |
|---|---|---|---|---|---|---|---|
| 2017 | Cash salary and fees $ | Bonus $ | Non--monetary $ | Super-annuation $ | Long service leave $ | Equity-settled $ | Total $ |
| *Non-Executive Directors:* | | | | | | | |
| Robert Friedland* | 37,500 | – | – | – | – | – | 37,500 |
| Jiang Zhaobai**** | 8,333 | – | – | – | – | – | 8,333 |
| Li Binghan**** | 8,333 | – | – | – | – | – | 8,333 |
| Eric Finlayson | 45,872 | – | – | 4,358 | – | 137,738 | 187,968 |
| Roger Harley | 45,872 | – | – | 4,358 | – | 137,738 | 187,968 |
| Ian Knight | 50,000 | – | – | – | – | 137,738 | 187,738 |
| Mike Spreadborough** | 25,649 | – | – | 2,437 | – | – | 28,086 |
| *Executive Directors:* | | | | | | | |
| Sam Riggall | 300,000 | – | – | 28,500 | 6,974 | 3,004,288 | 3,339,762 |
| Peter Voigt | 250,000 | – | 413 | 23,750 | 16,719 | 418,331 | 709,213 |
| *Other KMP:* | | | | | | | |
| Scott Magee*** | 92,952 | – | – | 6,230 | 1,593 | 346,640 | 447,415 |
| Ben Stockdale | 253,750 | – | – | 24,106 | 4,329 | 30,433 | 312,618 |
| | 1,118,261 | – | 413 | 93,739 | 29,615 | 4,212,906 | 5,454,934 |

* Robert Friedland was appointed as Co-Chairman and Non-Executive Director on 8 September 2016.

** Mike Spreadborough was appointed as a Non-Executive Director on 8 December 2016.

*** Scott Magee was appointed Syerston Project Director on 27 February 2017.

**** Jiang Zhaobai was appointed as Co-Chairman and Non-Executive Director on 24 April 2017. Li Binghan was appointed as a Non-Executive Director on 24 April 2017.

Stefanie Loader was appointed as a Non-Executive Director on 28 June 2017. Her appointment has effect from 1 July 2017. For the year ending 30 June 2017, she received no remuneration for her duties as Non-Executive Director.

# Directors' Report

continued

| 2016 | Short-term benefits<br>Cash salary and fees<br>$ | Bonus<br>$ | Non--monetary<br>$ | Post-employment benefits<br>Super-annuation<br>$ | Long-term benefits<br>Long service leave<br>$ | Share based payments<br>Equity-settled<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|---|
| *Non-Executive Directors:* | | | | | | | |
| Roger Harley | 45,872 | – | – | 4,358 | – | 62,325 | 112,555 |
| Ian Knight | 50,000 | – | – | – | – | 62,325 | 112,325 |
| Eric Finlayson** | 36,315 | – | – | 3,450 | – | 62,325 | 102,090 |
| *Executive Directors:* | | | | | | | |
| Sam Riggall* | 185,841 | – | | 14,460 | 3,053 | 688,149 | 891,503 |
| Peter Voigt | 200,001 | – | 152 | 19,000 | 3,352 | 210,724 | 433,229 |
| *Other KMP:* | | | | | | | |
| Ben Stockdale | 250,001 | – | | 23,750 | 4,190 | 191,142 | 469,083 |
| | 768,030 | – | 152 | 65,018 | 10,595 | 1,276,990 | 2,120,785 |

* Sam Riggall was appointed to the position of CEO on 1 July 2015.

** Eric Finlayson was appointed as a Non-Executive Director on 16 September 2015.

## C. Service agreements (audited)

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

| | |
|---|---|
| Name: | Mr Sam Riggall |
| Title: | Managing Director |
| Agreement commenced: | 1 July 2015 |
| Term of agreement: | No fixed term |
| Experience and Expertise: | Remuneration is set at a salary of $300,000 per annum, plus superannuation of $28,500 based on duties as Managing Director. The Company may terminate the agreement upon three months' notice or payment in lieu of notice. Mr Riggall can terminate the agreement upon three months' notice. The Company may terminate the agreement immediately where the executive commits any act of serious misconduct, persistent breach or non-observance of a term of this agreement. |
| Name: | Mr Peter Voigt |
| Title: | Executive Director |
| Agreement commenced: | 1 March 2015 |
| Term of agreement: | No fixed term |
| Experience and Expertise: | Remuneration is set at a base salary of $250,000 per annum plus superannuation of $23,750 based on duties as executive director. The Company may terminate the agreement upon three months' notice or payment in lieu of notice. Mr Voigt can terminate the agreement upon three months' notice. The Company may terminate the agreement immediately where the executive commits any act of serious misconduct, persistent breach or non-observance of a term of this agreement. |

| | |
|---|---|
| Name: | Mr Ben Stockdale |
| Title: | Chief Financial Officer |
| Agreement commenced: | 15 January 2015 |
| Term of agreement: | No fixed term |
| Experience and Expertise: | Remuneration set at base salary of $253,750 per annum plus superannuation of $24,106 based on duties as Chief Financial Officer. The Company may terminate the agreement upon six months' notice or payment in lieu of notice. Mr Stockdale can terminate the agreement upon three months' notice. The Company may terminate the agreement immediately where the executive commits any act of serious misconduct, persistent breach or non-observance of a term of this agreement. |

| | |
|---|---|
| Name: | Mr Scott Magee |
| Title: | Syerston Project Director |
| Agreement commenced: | 1 March 2017 |
| Term of agreement: | No fixed term |
| Experience and Expertise: | Remuneration set at base salary of $300,000 per annum plus superannuation of $28,500 based on duties as Project Director. The Company may terminate the agreement upon three months' notice or payment in lieu of notice. Mr Magee can terminate the agreement upon three months' notice. The Company may terminate the agreement immediately where the executive commits any act of serious misconduct, persistent breach or non-observance of a term of this agreement. |

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

## D. Share-based compensation (audited)

### Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2017.

### Options

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

# Directors' Report

continued

| Grantee / Number of Options / Grant Date | Vesting date & exercisable date | Expiry Date | Exercise Price | Fair value per option at grant date |
|---|---|---|---|---|
| Sam Riggall<br>8,000,000 options<br>25 February 2015 | 30 June 2015 | 25 February 2018 | $0.1574 | $0.068 |
| Sam Riggall<br>4,000,000 options<br>20 November 2015 | 20 November 2015 | 30 June 2018 | $0.2305 | $0.085 |
| Sam Riggall<br>4,000,000 options<br>20 November 2015 | 31 December 2015 | 30 June 2018 | $0.2305 | $0.085 |
| Sam Riggall<br>8,000,000 options<br>6 September 2016 | 6 September 2016 | 16 May 2019 | $0.3100 | $0.367 |
| Peter Voigt<br>2,000,000 options<br>20 November 2015 | 20 November 2015 | 31 March 2018 | $0.1450 | $0.102 |
| Peter Voigt<br>1,000,000 options<br>6 September 2016 | 6 September 2016 | 16 May 2019 | $0.2820 | $0.378 |
| Roger Harley<br>750,000 options<br>20 November 2015 | 20 November 2015 | 30 November 2018 | $0.2712 | $0.083 |
| Roger Harley<br>375,000 options<br>6 September 2016 | 6 September 2016 | 16 May 2019 | $0.3100 | $0.367 |
| Ian Knight<br>750,000 options<br>20 November 2015 | 20 November 2015 | 30 November 2018 | $0.2712 | $0.083 |
| Ian Knight<br>375,000 options<br>6 September 2016 | 6 September 2016 | 16 May 2019 | $0.3100 | $0.367 |
| Eric Finlayson<br>750,000 options<br>20 November 2015 | 20 November 2015 | 30 November 2018 | $0.2712 | $0.083 |
| Eric Finlayson<br>375,000 options<br>6 September 2016 | 6 September 2016 | 16 May 2019 | $0.3100 | $0.367 |
| Ben Stockdale<br>2,000,000 options<br>1 March 2015 | 1 March 2015 | 1 March 2018 | $0.1495 | $0.067 |
| Ben Stockdale<br>1,000,000 options<br>16 May 2016 | 16 May 2016 | 16 May 2019 | $0.2820 | $0.177 |
| Scott Magee<br>1,500,000 options<br>22 February 2017 | 22 February 2018 | 22 February 2020 | $0.6549 | $0.439 |
| Scott Magee<br>1,500,000 options<br>22 February 2017 | 22 February 2019 | 22 February 2020 | $0.6549 | $0.439 |

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to directors and other key management personnel as part of compensation during the year ended 30 June 2017 is set out below:

| Name | Number of options granted during the year 2017 | Number of options granted during the year 2016 | Number of options vested during the year 2017 | Number of options vested during the year 2016 |
|---|---|---|---|---|
| Sam Riggall | 8,000,000 | 8,000,000 | 8,000,000 | 12,000,000 |
| Peter Voigt | 1,000,000 | 2,000,000 | 1,000,000 | 2,000,000 |
| Roger Harley | 375,000 | 750,000 | 375,000 | 750,000 |
| Ian Knight | 375,000 | 750,000 | 375,000 | 750,000 |
| Eric Finlayson | 375,000 | 750,000 | 375,000 | 750,000 |
| Ben Stockdale | – | 1,000,000 | – | 1,000,000 |
| Scott Magee | 3,000,000 | – | – | – |

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2017 are set out below:

| Name | Value of options granted during the year $ | Value of options exercised during the year $ | Value of options lapsed during the year $ | Remuneration consisting of options for the year % |
|---|---|---|---|---|
| Sam Riggall | 2,938,400 | – | – | 88% |
| Peter Voigt | 378,400 | – | – | 53% |
| Roger Harley | 137,738 | – | – | 73% |
| Ian Knight | 137,738 | – | – | 73% |
| Eric Finlayson | 137,738 | – | – | 73% |
| Ben Stockdale | – | – | – | –% |
| Scott Magee | 346,640 | – | – | 77% |

Options vested in prior years and expired in the current year are disclosed in note 42 to the financial statements.

## Performance Rights

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

| Grantee / Number of Performance Rights / Grant Date | Vesting date | Expiry Date | Exercise Price | Fair value per performance right at grant date |
|---|---|---|---|---|
| Sam Riggall<br>480,000 rights<br>19 November 2015 | 1 July 2018 | 1 July 2018 | Nil | $0.065 |
| Peter Voigt<br>400,000 rights<br>19 November 2015 | 1 July 2018 | 1 July 2018 | Nil | $0.065 |
| Ben Stockdale<br>400,000 rights<br>8 July 2015 | 1 July 2018 | 1 July 2018 | Nil | $0.086 |
| Ben Stockdale<br>468,606 rights<br>16 May 2016 | 1 July 2019 | 1 July 2019 | Nil | $0.126 |
| Peter Voigt<br>461,681 rights<br>6 September 2016 | 6 September 2019 | 6 September 2019 | Nil | $0.195 |
| Sam Riggall<br>831,025 rights<br>6 September 2016 | 6 September 2019 | 6 September 2019 | Nil | $0.195 |

Performance rights granted carry no dividend or voting rights.

The number of performance rights over ordinary shares granted to each key management personnel as part of compensation during the year ended 30 June 2017 is set out below:

| | Number of rights granted during the year | Number of rights granted during the year | Number of rights vested during the year | Number of rights vested during the year |
|---|---|---|---|---|
| Name | 2017 | 2016 | 2017 | 2016 |
| Sam Riggall | 831,025 | 480,000 | – | – |
| Peter Voigt | 461,681 | 400,000 | – | – |
| Ben Stockdale | – | 868,606 | – | – |

Values of performance rights over ordinary shares granted, exercised and lapsed key management personnel as part of compensation during the year ended 30 June 2017 are set out below:

| | $ Value of rights granted during the year | $ Value of rights granted during the year | $ Value of rights vesting during the year | $ Value of rights vesting during the year |
|---|---|---|---|---|
| Name | 2017 | 2016 | 2017 | 2016 |
| Sam Riggall | 53,914 | 31,330 | – | – |
| Peter Voigt | 29,952 | 26,109 | – | – |
| Ben Stockdale | – | 93,491 | – | – |

## E. Additional information (audited)

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

The earnings of the Consolidated Entity for the five years to 30 June 2017 are summarised below:

| | 2013 $'000 | 2014 $'000 | 2015 $'000 | 2016 $'000 | 2017 $'000 |
|---|---|---|---|---|---|
| Profit/(loss) after income tax | (4,631) | (4,910) | (8,225) | (6,423) | (12,184) |

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

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Share price at financial year end ($) | 0.10 | 0.05 | 0.23 | 0.43 | 0.67 |
| Movement in share price ($) | (0.03) | (0.05) | 0.18 | 0.20 | 0.24 |
| Dividends paid ($) | – | – | – | – | – |

Net profit after income tax is considered as one of the financial performance targets in setting the short-term incentives. Dividends and changes in share price are included in the total shareholder return calculation, which is one of the performance criteria assessed for the long-term incentives.

The other performance criteria assessed for the long term incentives is growth in earnings per share, which again takes into account the Consolidated Entity's net profit after income tax.

## F. Key management personnel transactions (audited)

### Movement in shares held

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

| | Balance at the start of the year*** | Received as part of remuneration | Additions | Disposals / other | Balance at end of the year |
|---|---|---|---|---|---|
| *Ordinary shares* | | | | | |
| Robert Friedland* | 87,518,888 | – | 7,000,000 | – | 94,518,888 |
| Jiang Zhaobai* | 92,518,888 | – | – | – | 92,518,888 |
| Sam Riggall | 6,878,634 | – | 39,310 | – | 6,917,944 |
| Peter Voigt | 27,725,794 | – | – | (5,000,000) | 22,725,794 |
| Li Binghan* | – | – | – | – | – |
| Eric Finlayson | – | – | – | – | – |
| Roger Harley | 1,830,812 | – | – | – | 1,830,812 |
| Ian Knight | 1,025,557 | – | – | – | 1,025,557 |
| Mike Spreadborough* | – | – | – | – | – |
| Scott Magee** | – | – | – | – | – |
| Ben Stockdale | 75,000 | – | – | – | 75,000 |
| | 217,573,573 | – | 7,039,310 | (5,000,000) | 219,612,883 |

* Appointed to the position of Non-Executive Director during the financial year.

** Appointed as Project Director – Syerston during the financial year.

*** The opening balance of Robert Friedland and Jiang Zhaobai's shareholding is the balance on the date that they were appointed as a director, rather than the balance as at 1 July 2016.

## Grant of anti-dilution right to Pengxin International Group Limited

On 27 March 2017, ASX Limited ('ASX') granted the Company a waiver from ASX listing rule 6.18. This waiver was given to the extent necessary to permit Pengxin International Group Limited ('Pengxin'), a company associated with Mr Jiang Zhaobai and Mr Li Binghan, to maintain, its percentage interest in the issued share capital of the company.

This Anti-Dilution Right is activated if a dilution event occurs in the future. The Anti-Dilution Right lapses on the earlier of:

(i) the date on which Pengxin and its related bodies corporate cease to hold in aggregate at least 10% voting power in the Company;

(ii) the date on which Pengxin and its related bodies corporate's voting power in the Company exceeds 25%; or

(iii) the strategic relationship between the Company and Pengxin ceases or changes in such a way that it effectively ceases.

This Anti-Dilution Right can only be transferred to an entity in the wholly owned group of Pengxin.

## Movement in options held

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

| | Balance at the start of the year | Granted as part of remuneration | Exercised | Expired / forfeited / other | Balance at end of the year |
|---|---|---|---|---|---|
| *Options over ordinary shares* | | | | | |
| Sam Riggall | 16,000,000 | 8,000,000 | – | – | 24,000,000 |
| Peter Voigt | 2,000,000 | 1,000,000 | – | – | 3,000,000 |
| Eric Finlayson | 750,000 | 375,000 | – | – | 1,125,000 |
| Roger Harley | 750,000 | 375,000 | – | – | 1,125,000 |
| Ian Knight | 750,000 | 375,000 | – | – | 1,125,000 |
| Ben Stockdale | 3,000,000 | – | – | – | 3,000,000 |
| Scott Magee* | – | 3,000,000 | – | – | 3,000,000 |
| | 23,250,000 | 13,125,000 | – | – | 36,375,000 |

* Appointed as Project Director – Syerston during the financial year.

## Movement in performance rights held

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

| | Balance at the start of the year | Granted as part of remuneration | Exercised | Expired / forfeited / other | Balance at end of the year |
|---|---|---|---|---|---|
| *Rights over ordinary shares* | | | | | |
| Sam Riggall | 480,000 | 831,025 | – | – | 1,311,025 |
| Peter Voigt | 400,000 | 461,681 | – | – | 861,681 |
| Ben Stockdale | 868,606 | – | – | – | 868,606 |
| | 1,748,606 | 1,292,706 | – | – | 3,041,312 |

## Other transactions with key management personnel

Details of other transactions with key management personnel are set out in notes 31 and 35.

*This concludes the remuneration report, which has been audited.*

## Shares under option

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

| Grant Date | Expiry Date | Exercise Price | Number under Option |
|---|---|---|---|
| 25 February 2015 | 25 February 2018 | $0.1574 | 8,000,000 |
| 1 March 2015 | 1 March 2018 | $0.1495 | 4,000,000 |
| 6 July 2015 | 30 June 2018 | $0.3010 | 666,214 |
| 20 November 2015 | 30 June 2018 | $0.2305 | 8,000,000 |
| 20 November 2015 | 31 March 2018 | $0.1450 | 2,000,000 |
| 20 November 2015 | 30 November 2018 | $0.2712 | 3,500,000 |
| 16 May 2016 | 16 May 2019 | $0.2820 | 3,300,000 |
| 6 September 2016 | 16 May 2019 | $0.2820 | 1,000,000 |
| 6 September 2016 | 16 May 2019 | $0.3100 | 9,125,000 |
| 15 December 2016 | 15 December 2019 | $0.5850 | 500,000 |
| 22 February 2017 | 22 February 2020 | $0.6549 | 3,000,000 |
| 20 June 2017 | 20 June 2020 | $0.9500 | 600,000 |
| | | | 43,691,214 |

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

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

## Shares subject to performance rights

Unissued ordinary shares of Clean TeQ Holdings Limited subject to performance rights as at 30 June 2017 are as follows:

| Grant Date | Vest Date | Exercise Price | Number |
|---|---|---|---|
| 8 July 2015 | 1 July 2018 | Nil | 1,166,416 |
| 20 November 2015 | 1 July 2018 | Nil | 880,000 |
| 16 May 2016 | 1 July 2019 | Nil | 1,538,807 |
| 6 September 2016 | 6 September 2019 | Nil | 1,292,706 |
| | | | 4,877,929 |

## Shares issued on the exercise of options or performance rights

During the year, the Company issued the following amount of shares, as a result of option holders exercising their options:

| Number of Shares | Amount paid on each share |
|---|---|
| 200,000 | $0.3960 |
| 2,000,000 | $0.1155 |
| 2,000,000 | $0.1455 |
| 333,787 | $0.3010 |
| 2,000,000 | $0.1450 |
| 1,700,000 | $0.2820 |

## Indemnity and insurance of officers

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

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

## Indemnity and insurance of auditor

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

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

## Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

## Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 32 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 32 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

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

## Officers of the Company who are former audit partners of KPMG

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

## Rounding of amounts

The Company is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

## Lead auditor's independence declaration

A copy of the lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 35 and forms part of the directors' report for the financial year ended 30 June 2017.

## Auditor

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

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

On behalf of the directors

Sam Riggall
Managing Director

25 August 2017
Melbourne

# Auditor's Independence Declaration

For the year ended 30 June 2017

KPMG

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

### To the Directors of Clean TeQ Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Clean TeQ Holdings Limited for the financial year ended 30 June 2017 there have been:

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

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

KPMG

KPMG

Dana Bentley

*Partner*

Melbourne

25 August 2017

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

# Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2017

| | Note | Consolidated 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **Revenue** | 5 | 1,612 | 1,454 |
| Share of profits of joint venture accounted for using the equity method | 6 | 1 | – |
| **Expenses** | | | |
| Raw materials and other direct costs | 7 | (76) | (61) |
| Employee benefits expenses | 7 | (8,841) | (4,291) |
| Depreciation and amortisation expenses | 7 | (813) | (704) |
| Legal and professional expenses | | (1,050) | (543) |
| Occupancy expenses | 7 | (420) | (361) |
| Marketing expenses | | (756) | (544) |
| Impairment of loan receivable | | – | (326) |
| Write off of bad debts | | (2) | – |
| Other expenses | | (1,669) | (773) |
| Finance costs | | (170) | (274) |
| **Loss before income tax benefit from continuing operations** | | **(12,184)** | **(6,423)** |
| | | | |
| Income tax expense | 8 | – | – |
| **Loss after income tax benefit for the year attributable to the owners of Clean TeQ Holdings Limited** | | **(12,184)** | **(6,423)** |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation | | – | – |
| | | | |
| Other comprehensive income for the year, net of tax | | – | – |
| **Total comprehensive income for the year attributable to the owners of Clean TeQ Holdings Limited** | | **(12,184)** | **(6,423)** |
| | | | |
| Total comprehensive income for the year is attributable to: | | | |
| Continuing operations | | (12,184) | (6,423) |
| Owners of the company | | – | – |
| | | **(12,184)** | **(6,423)** |

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

# Statement of Profit or Loss and Other Comprehensive Income

continued

| | Note | Consolidated 2017 Cents | 2016 Cents |
|---|---|---|---|
| **Earnings per share for loss from continuing operations attributable to the owners of Clean TeQ Holdings Limited** | | | |
| Basic earnings per share | 41 | (2.49) | (1.56) |
| Diluted earnings per share | 41 | (2.49) | (1.56) |
| **Earnings per share for loss attributable to the owners of Clean TeQ Holdings Limited** | | | |
| Basic earnings per share | 41 | (2.49) | (1.56) |
| Diluted earnings per share | 41 | (2.49) | (1.56) |

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

# Statement of Financial Position

as at 30 June 2017

| | Note | Consolidated 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 88,863 | 7,226 |
| Trade and other receivables | 10 | 993 | 302 |
| Inventories | 11 | 96 | 96 |
| Income tax receivable | 12 | 2,088 | 2,395 |
| Other financial assets | 13 | – | 377 |
| **Total current assets** | | 92,040 | 10,396 |
| **Non-current assets** | | | |
| Other financial assets | 13 | 80 | – |
| Investment in equity accounted investee | 14 | 804 | – |
| Property, plant and equipment | 15 | 2,662 | 2,329 |
| Intangibles | 16 | 10,406 | 11,103 |
| Exploration and evaluation assets | 17 | 14,379 | 3,201 |
| **Total non-current assets** | | 28,331 | 16,633 |
| **Total assets** | | 120,371 | 27,029 |
| **Current liabilities** | | | |
| Trade and other payables | 18 | 3,172 | 715 |
| Employee benefits | 19 | 300 | 274 |
| Deferred revenue | 20 | 47 | 46 |
| Notes payable | 21 | 2,850 | – |
| **Total current liabilities** | | 6,369 | 1,035 |
| **Non-current liabilities** | | | |
| Deferred revenue | 20 | 495 | 544 |
| Notes payable | 21 | – | 2,684 |
| Employee benefits | 23 | 68 | 41 |
| Provisions | 24 | 55 | – |
| **Total non-current liabilities** | | 618 | 3,269 |
| **Total liabilities** | | 6,987 | 4,304 |
| **Net assets** | | **113,384** | **22,725** |
| **Equity** | | | |
| Issued capital | 25 | 137,517 | 39,856 |
| Reserves | 26 | 8,484 | 3,302 |
| Accumulated losses | 27 | (32,617) | (20,433) |
| **Total equity** | | **113,384** | **22,725** |

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

# Statement of Changes in Equity

For the year ended 30 June 2017

| Consolidated | Contributed Equity $'000 | Accumulated Losses $'000 | Reserves $'000 | Total Equity $'000 |
|---|---|---|---|---|
| Balance at 1 July 2015 | 27,717 | (14,010) | 1,063 | 14,770 |
| Loss after income tax benefit for the financial year | – | (6,423) | – | (6,423) |
| Total comprehensive income for the financial year | – | (6,423) | – | (6,423) |
| *Transactions with owners in their capacity as owners:* | | | | |
| Equity contributions, net of transaction costs (note 25) | 12,139 | – | – | 12,139 |
| Share-based payments (note 42) | – | – | 2,239 | 2,239 |
| Lapse of options | – | – | – | – |
| Total contribution and distribution: | 12,139 | – | 2,239 | 14,378 |
| *Change in ownership interests:* | | | | |
| Total transactions with owners of the Company | 12,139 | – | 2,239 | 14,378 |
| | | | | |
| Balance at 30 June 2016 | 39,856 | (20,433) | 3,302 | 22,725 |
| Balance at 1 July 2016 | 39,856 | (20,433) | 3,302 | 22,725 |
| Loss after income tax benefit for the financial year | – | (12,184) | – | (12,184) |
| Total comprehensive income for the financial year | – | (12,184) | – | (12,184) |
| *Transactions with owners in their capacity as owners:* | | | | |
| Equity contributions, net of transaction costs (note 25) | 97,661 | – | – | 97,661 |
| Share-based payments (note 42) | – | – | 5,182 | 5,182 |
| Lapse of options | – | – | – | – |
| Total contribution and distribution: | 97,661 | – | 5,182 | 102,843 |
| *Change in ownership interests:* | | | | |
| Total transactions with owners of the Company | 97,661 | – | 5,182 | 102,843 |
| Balance at 30 June 2017 | 137,517 | (32,617) | 8,484 | 113,384 |

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

# Statement of Cash Flows

For the year ended 30 June 2017

| | Note | Consolidated 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 616 | 681 |
| Payments to suppliers and employees (inclusive of GST) | | (5,112) | (4,550) |
| Cash used in operating activities | | (4,496) | (3,869) |
| Interest received | | 392 | 110 |
| Interest and other finance costs paid | | (4) | (80) |
| Research and development tax incentive received | | 2,604 | 1,506 |
| Net cash used in operating activities | 40 | (1,504) | (2,333) |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | 15 | (336) | (41) |
| Payments for acquisition of other intangibles | 16 | (70) | – |
| Payments for exploration and evaluation assets | 17 | (13,619) | (4,657) |
| Acquisition of non-controlling interest | | (804) | – |
| Proceeds from disposal of plant & equipment | 5 | 12 | – |
| Net cash used in investing activities | | (14,817) | (4,698) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares, net of issuance costs | | 97,661 | 12,139 |
| Payment of hire purchases | | – | – |
| Cash on deposit for security over bank guarantees | | 297 | (24) |
| Repayment of borrowings | | – | (1,171) |
| Net cash from financing activities | | 97,958 | 10,944 |
| Net increase in cash and cash equivalents | | 81,637 | 3,913 |
| Cash and cash equivalents at the beginning of the financial year | | 7,226 | 3,313 |
| Cash and cash equivalents at the end of the financial year | 9 | **88,863** | **7,226** |

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

# Notes to the Financial Statements

For the year ended 30 June 2017

## Note 1. General information

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

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

Unit 12, 21 Howleys Road
Notting Hill
Victoria Australia 3168

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 25 August 2017. The directors have the power to amend and reissue the financial statements.

## Note 2. Significant accounting policies

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

### (a) Going concern

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

The Consolidated Entity reported a net loss after tax from continuing operations for the financial year of $12,184,000 (30 June 2016: loss of $6,423,000). We note there were no significant revenues from continuing operations during the financial year. Operational revenues were more than offset by exploration and evaluation, business development and corporate overhead costs. Working capital, being current assets less current liabilities, amounts to an $85,671,000 surplus (30 June 2016: $9,361,000 surplus), with cash reserves increasing from $7,226,000 to $88,863,000 during the financial year. Net cash outflows from operating activities were $1,504,000 for the financial year (30 June 2016: $2,333,000 outflow).

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

- The Consolidated Entity increased its available cash on hand as at 30 June 2017 to $88,863,000;
- During the financial year, the Consolidated Entity raised $97,661,000 in equity capital after issue costs, indicating strong support from investors to invest in the Consolidated Entity and its technologies;
- The Consolidated Entity received a $2,604,000 cash rebate from the Australian Tax Office for eligible research and development expenditure relating to the 2016 financial year. The Consolidated Entity anticipates that a proportion of the 2017 financial years' development expenditure, including a large proportion of Syerston piloting and testwork, will also be eligible for the refundable tax offset; and
- The forecast cash flows for the Consolidated Entity indicate a positive cash position for at least the period of 12 months to August 2018.

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

As set out in the financial report, during the financial year the Consolidated Entity made good progress in respect of the commercialisation of its water and metals technologies. A number of significant project opportunities have been identified in a number of key markets with a focus on treatment of waste water from mining operations. The Consolidated Entity also made good progress in respect of the ongoing development of the Syerston Project. The Consolidated Entity will continue working towards securing commercial contracts in the near future, and anticipates both the Water and Metals Divisions to produce substantial revenues in the future.

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

On the basis of cash and cash equivalents available as at 30 June 2017, cashflow forecasts to 31 December 2018, and that sufficient funding is expected to be raised to meet the Consolidated Entity's medium to long term expenditure forecasts, the directors consider that the Consolidated Entity remains a going concern and these financial statements have been prepared on this basis.

## (b) Basis of preparation

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

### Historical cost convention

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

### Critical accounting estimates

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

## (c) Parent Entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Consolidated Entity only. Supplementary information about the Parent Entity is disclosed in note 36.

## (d) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Clean TeQ Holdings Limited as at 30 June 2017 and the results of all subsidiaries for the year then ended. Clean TeQ Holdings Limited and its subsidiaries together are referred to in these financial statements as the 'Consolidated Entity'.

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

### Business combinations

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

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

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

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

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

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

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date.

The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

### Transactions eliminated on consolidation

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

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

### Loss of control

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

### Associates

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

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

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

### Joint ventures

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

## (e) Operating segments

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

## (f) Revenue recognition

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

### Sale of goods and services

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

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

### Rendering of services

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

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

### Technology licensing income

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

### Sales of non-current assets

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

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

### Government grants

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

## (g) Income tax

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

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

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The Consolidated Entity makes this assessment at each reporting date. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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

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

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

In addition to its own current and deferred tax amounts, the head Entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax Consolidated group. Assets or liabilities arising under tax funding agreements with the tax Consolidated entities are recognised as amounts receivable from or payable to other entities in the tax Consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax Consolidated group member, resulting in neither a contribution by the head Entity to the subsidiaries nor a distribution by the subsidiaries to the head Entity.

### (h) Current and non-current classification

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

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

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

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

### (i) Cash and cash equivalents

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

### (j) Trade and other receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly.

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

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

### (k) Inventories

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

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

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

### (l) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Consolidated Entity. Ongoing repairs and maintenance are expensed as incurred. Land is not depreciated.

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

| | |
|---|---|
| Plant and factory equipment | 2.5 to 20 years (straight line and diminishing value) |
| Office furniture and equipment | 2.5 to 20 years (straight line and diminishing value) |
| Leasehold improvements | 3 – 7 years (diminishing value) |
| Motor vehicles | 5 – 6 years (diminishing value) |
| Land | Indefinite |

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

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

## (m) Other financial assets

Cash on deposit used as security for bank guarantees maturing within twelve months of each reporting period is disclosed as a current other financial asset. Those deposits that mature in excess of twelve months are disclosed as non-current other financial assets.

## (n) Intangibles

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

### Research and development

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

### Mineral Licence Rights

Licence rights relating to mining tenements are amortised in the consolidated statement of profit or loss and comprehensive income over the life of the relevant area of interest from the commencement of commercial production. The mineral license rights intangible asset is subject to impairment testing in accordance with the Consolidated Entity's accounting policy for impairment of non-financial assets as set out in note 2(o).

### Patents and trademarks

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

### Subsequent expenditure

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

## (o) Impairment of non-financial assets

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

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

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

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

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

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

### (p) Leases

#### Determining whether an arrangement contains a lease

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

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

#### Leased assets

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

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

#### Lease payments

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The Consolidated Entity derecognises the liabilities when its contractual obligations are discharged, cancelled or expired.

### (q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost. The amounts are unsecured and are usually paid within 30 days of recognition. The Consolidated entity derecognises the liability when its contractual obligations are discharged, cancelled or expired.

### (r) Borrowings

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

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

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

### (s) Finance income and costs

The Consolidated Entity's finance income and finance costs include, as applicable:

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

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

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

Interest expense is recognised using the effective interest method. Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

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

### (t) Employee benefits

#### Short-term employee benefits

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

#### Other long-term employee benefits

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

#### Termination benefits

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

#### Defined contribution superannuation expense

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

#### Share-based payments

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

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

The cost of equity-settled transactions are measured at fair value on grant date.

Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the strike price of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that are not dependant on whether the Consolidated Entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

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

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

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

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

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

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

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

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

**(u) Fair value measurement**

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

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

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

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

**(v) Issued capital**

Ordinary shares are classified as equity.

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

**(w) Earnings per share**

Basic earnings per share

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

Diluted earnings per share

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

**(x) Goods and Services Tax ('GST') and other similar taxes**

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

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

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

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

**(y) Rounding of amounts**

The Company is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

**(z) Exploration and evaluation assets**

Exploration, evaluation and feasibility expenditure

Exploration and evaluation expenditure is capitalised and carried forward in the financial statements, in respect of areas of interest for which the rights of tenure are current and where such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale. Capitalised costs are deferred until commercial production commences from the relevant area of interest, at which time they are amortised on a unit of production basis.

Exploration and evaluation expenditure consists of an accumulation of acquisition costs and direct exploration and evaluation costs incurred.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment policy, Note 2(o)). For the purpose of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates.

When an area of interest is abandoned, or the Directors determine it is not commercially viable to pursue, accumulated costs in respect of that area are written off in the period the decision is made.

### (aa) New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual period beginning after 1 July 2016, however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

#### IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

#### IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

#### IFRS 16 Leases

IFRS 16 requires companies to bring most leases on-balance sheet from 2019. Companies with leases will appear to be more asset-rich, but also more heavily indebted. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

The adoption of these standards may have an impact on the Consolidated Entity's financial assets, and is not expected to have a significant impact on the Consolidated Entity's financial liabilities, however the impact is not expected to be material to net equity.

## Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances.

The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

#### Share-based payment transactions

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

#### Estimation of useful lives of assets

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

#### Exploration & Evaluation Assets

As set out in Note 2(z) exploration and evaluation expenditure is capitalised for an area of interest for which it is considered likely to be recoverable from future exploitation or sale. The accounting policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. These estimates and assumptions may change as new information becomes available.

If, after having capitalised the expenditure under the accounting policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the profit or loss.

### Intangible assets

The recoverable value of patents and trademarks acquired is based on the cost of registering the patents and trademarks, less any diminution in value through amortisation and impairment.

The recoverable value of development intangible assets is based on discounted cash flows expected to be derived from the use or eventual sale of the assets.

At each reporting date the directors and management undertake an impairment review to determine their value in use as derived from discounted cash flow modelling. Based on the impairment review at 30 June 2017, the directors determined that no impairment of the intangible assets be recognised (2016: Nil). Details of the review, and the assumptions and estimates used, are contained in note 16.

### Recovery of deferred tax assets

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

### Other non-derivative financial liabilities

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

## Note 4. Operating segments

### Identification of reportable operating segments

The Consolidated Entity is organised into 2 operating segments: Water and Metals. 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 Managing Director 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:

| | |
|---|---|
| Water | The Company's suite of water technologies filter, separate and purify polluted waters for drinking, agriculture, recreation or industrial use. |
| Metals | The Clean-iX® technology is at the core of this segment and aims to provide cost effective extraction techniques for a range of resources, including base metals, precious metals and radioactive elements (such as uranium). The Metals segment is also progressing the development of the Syerston Project in New South Wales. |

Information regarding the results of each reportable segment is included below. Performance is measured based on the net result before interest, depreciation, amortisation and tax, as included in the internal management reports that are reviewed by the Consolidated Entity's Managing Director. Each segment's net result before interest, depreciation, amortisation and tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Inter-segment pricing is determined on an arm's length basis. The information relating to the performance of the identified segments includes revenues and directly attributable costs and materials. The assets attributed to each division relates to revenue generating assets. All other assets and liabilities are not allocated to specific segments.

### Geographical segments

Geographically, the Consolidated Entity operates predominately in Australia.

### Major customers

Major revenue for the year ending 30 June 2017 is derived chiefly from interest income and government grants.

### Operating segment information

| Consolidated – 2017 | Metals $'000 | Water $'000 | Intersegment eliminations/ unallocated** $'000 | Total $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales to external customers | – | 392 | – | 392 |
| Rental income | 72 | – | – | 72 |
| Interest income | – | – | 453 | 453 |
| Other revenue | 500 | 181 | 14 | 695 |
| **Total revenue** | 572 | 573 | 467 | 1,612 |
| Share of profit from JV | – | 1 | – | 1 |
| **Reportable segment (loss)/profit before interest, depreciation and tax** | (1,541) | (1,754) | (7,906) | (11,201) |
| Depreciation and amortisation | (388) | (378) | (47) | (813) |
| Impairment of assets | – | – | – | – |
| Finance costs | – | – | (170) | (170) |
| **Profit/(loss) before income tax expense** | (1,929) | (2,132) | (8,123) | (12,184) |
| Income tax expense | – | – | – | – |
| **Loss after income tax expense** | | | | (12,184) |
| **Assets** | | | | |
| Segment assets | 24,668 | 5,754 | 89,949 | 120,371 |
| **Total assets** | | | | 120,371 |
| *Total assets includes:* Additions of non-current assets (including those acquired in a business combination) | 13,689 | 804 | 336 | 14,829 |
| **Liabilities** | | | | |
| Segment liabilities | 2,850 | 542 | 3,595 | 6,987 |
| **Total liabilities** | | | | 6,987 |

* 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.

# Notes to the Financial Statements

continued

| Consolidated – 2016 | Metals $'000 | Water $'000 | Intersegment eliminations/ unallocated** $'000 | Total $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales to external customers | 44 | 121 | 44 | 209 |
| Rental income | 80 | – | – | 80 |
| Interest income | – | – | 110 | 110 |
| Other revenue | 430 | 450 | 175 | 1,055 |
| **Total revenue** | 554 | 571 | 329 | 1,454 |
| **Reportable segment (loss)/profit before interest, depreciation and tax** | (1,332) | (2,212) | (1,901) | (5,445) |
| Depreciation and amortisation | (18) | (663) | (23) | (704) |
| Impairment of assets | – | – | – | – |
| Finance costs | – | – | (274) | (274) |
| **Profit/(loss) before income tax expense** | (1,350) | (2,875) | (2,198) | (6,423) |
| Income tax expense | – | – | – | – |
| **Loss after income tax expense** | | | | (6,423) |
| **Assets** | | | | |
| Segment assets | 13,603 | 5,191 | 8,235 | 27,029 |
| **Total assets** | | | | 27,029 |
| *Total assets includes:* Additions of non-current assets (including those acquired in a business combination) | 2,955 | – | – | 2,955 |
| **Liabilities** | | | | |
| Segment liabilities | 2,684 | – | 1,620 | 4,304 |
| **Total liabilities** | | | | 4,304 |

* 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.

## Note 5. Revenue

| | Consolidated | |
|---|---|---|
| | 2017<br>$'000 | 2016<br>$'000 |
| *Sales revenue* | | |
| Contract revenue | 392 | 209 |
| Government grants | 682 | 883 |
| Rental income | 72 | 80 |
| | 1,146 | 1,172 |
| *Other revenue* | | |
| Interest | 453 | 110 |
| Proceeds from Sale of Asset | 12 | – |
| Other revenue | 1 | 172 |
| | 466 | 282 |
| Revenue | 1,612 | 1,454 |

## Note 6. Share of Profits of Joint Ventures Accounted for using the Equity Method

| | Consolidated | |
|---|---|---|
| | 2017<br>$'000 | 2016<br>$'000 |
| Share of Profit – Joint Venture | 1 | – |

## Note 7. Expenses

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Loss before income tax from continuing operations includes the following specific expenses: | | |
| *Cost of sales* | | |
| Cost of sales | 76 | 61 |
| *Depreciation* | | |
| Motor vehicles under lease | 2 | 5 |
| Plant and factory equipment | 63 | 278 |
| Office equipment and furniture | (20) | 18 |
| Total depreciation | 45 | 301 |
| *Amortisation* | | |
| Capitalised development costs | 732 | 368 |
| Other intangible assets | 35 | 35 |
| Total amortisation | 767 | 403 |
| Total depreciation and amortisation | 813 | 704 |
| *Employee benefit expenses* | | |
| Wages and salaries | 2,565 | 1,590 |
| Employee entitlements expense including movements in provisions for employee entitlements | 40 | 1 |
| Superannuation | 256 | 175 |
| Equity settled share based payments | 5,182 | 2,239 |
| Other costs | 798 | 286 |
| Total employee benefit expenses | 8,841 | 4,291 |
| *Rental expense relating to operating leases* | | |
| Lease payments | 420 | 189 |
| *Other expenses* | | |
| Write off of bad debts | 2 | – |
| Impairment of loan | – | 326 |

## Note 8. Income tax benefit

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| *Income tax benefit:* | | |
| Current tax | – | – |
| Deferred tax – origination and reversal of temporary differences | – | – |
| Aggregate income tax benefit | – | – |
| Deferred tax included in income tax benefit comprises: | | |
| Decrease in deferred tax liabilities (note 22) | – | – |
| *Numerical reconciliation of income tax benefit and tax at the statutory rate* | | |
| Loss before income tax benefit from continuing operations | (12,184) | (6,423) |
| Profit before income tax (expense)/benefit from discontinued operations | – | – |
| | (12,184) | (6,423) |
| Tax at the statutory tax rate of 27.5% (2016: 30%) | (3,351) | (1,927) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Entertainment expenses | 4 | 2 |
| Share-based payments | 1,425 | 672 |
| Interest expense on promissory note treated as non-deductible | 46 | 58 |
| Change in recognised deductible temporary difference | – | 6 |
| Tax losses (reinstated) / not brought to account | 2,764 | 1,344 |
| Non-assessable government grant income | (138) | (265) |
| Non-deductible R&D expense | 1,637 | 454 |
| R&D tax credit | (2,589) | (454) |
| Non-deductible amortisation expense | 202 | 110 |
| Income tax benefit | – | – |

Note that as at 1 July 2016, the company tax rate for companies with turnover of less than $10m has reduced from 30% to 27.5%. Accordingly, deferred tax balances have been recalculated at the new rate of tax.

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| *Tax losses not recognised:* | | |
| Unused tax losses for which no deferred tax asset has been recognised, including tax losses arising from a business combination | 25,508 | 21,692 |
| Potential tax benefit @ 27.5% (2016: 30%) | 7,015 | 6,508 |
| Plus: Unrecognised benefit of carry forward non-refundable R&D tax offset for which no deferred tax asset has been recognised, arising from a business combination | 589 | 589 |
| Total potential tax benefit of carry forward tax losses and R&D tax offset for which no deferred tax asset has been recognised | 7,604 | 7,097 |
| Temporary differences not brought to account | 903 | 903 |

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

# Notes to the Financial Statements

continued

## Note 9. Current assets – cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | 2017<br>$'000 | 2016<br>$'000 |
| Cash at bank | 88,863 | 7,226 |
| Cash on deposit | – | – |
| Cash on deposit used as security for bank guarantee and credit card facilities – uncommitted | – | – |
| | **88,863** | **7,226** |

The effective interest rate on short-term bank deposits at 30 June 2017 was 2.03% (2016: 1.60%). These deposits have a maximum maturity of 90 days of year end. Any balances with maturities exceeding this have been disclosed as other financial assets.

## Note 10. Current assets – trade and other receivables

| | Consolidated | |
|---|---|---|
| | 2017<br>$'000 | 2016<br>$'000 |
| Trade receivables | 91 | 49 |
| Other receivables | 902 | 253 |
| | **993** | **302** |

### Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $nil as at 30 June 2017 ($nil as at 30 June 2016).

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

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

| | Consolidated | |
|---|---|---|
| | 2017<br>$'000 | 2016<br>$'000 |
| 31-60 days | – | – |
| 60-90 days | – | – |
| 90+days | – | – |
| | **–** | **–** |

Normal trading terms are 30 days from month end. Amounts outstanding beyond normal trading terms do not have a history of default and thus management is of the view that no debtors are impaired at 30 June 2017 or 30 June 2016 and thus should not be provided for.

## Note 11. Current assets – inventories

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Raw materials – at net realisable value | 10 | 10 |
| Finished goods – at cost | 86 | 86 |
| | 96 | 96 |

Raw materials includes grape skin extract which was initially recognised at a cost of $598,000 when first acquired pre-2007. At 30 June 2017 the carrying value of grape skin extract is $10,000 (2016: $10,000). During the year ending 30 June 2017, management did not choose to write down the value of finished goods (2016: $nil).

## Note 12. Current assets – income tax receivable

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Income tax receivable | 2,088 | 2,395 |

Income tax receivable represents the refund due to the Consolidated Entity on expenditure during the current financial year eligible for research and development tax concessions.

## Note 13. Other financial assets

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| *Current* | | |
| Cash on deposit used as security for bank guarantees | – | 377 |
| *Non-Current* | | |
| Cash on deposit used as security for bank guarantees and facilities | 80 | – |

## Note 14. Non-current assets – Investment in equity accounted investee

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Investment in joint venture | 804 | – |

# Notes to the Financial Statements

continued

## Note 15. Non-current assets – property, plant and equipment

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Office furniture and equipment – at cost | 194 | 156 |
| Less: Accumulated depreciation | (100) | (118) |
| | 94 | 38 |
| Motor vehicles – at cost | 101 | 86 |
| Less: Accumulated depreciation | (40) | (65) |
| | 61 | 21 |
| Factory equipment – at cost | 737 | 737 |
| Less: Accumulated depreciation | (737) | (737) |
| | – | – |
| Leasehold improvements – at cost | 213 | 41 |
| Less: Accumulated depreciation | (63) | – |
| | 150 | 41 |
| Land – at cost | 2,357 | 2,229 |
| | 2,357 | 2,229 |
| | **2,662** | **2,329** |

Approximately $2,229,000 of the land was acquired from Ivanhoe Mines Ltd as part of the Consolidated Group's acquisition of the Syerston Project. The land was recorded at its deemed cost, being an approximate of its fair value as at that date as determined by management, with reference to an independent valuation performed in May 2013.

The acquisition of the Syerston project has been recognised as an asset acquisition in accordance with Australian Accounting Standards.

### Reconciliations of carrying amount

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

| Consolidated | Factory Equipment $'000 | Land $'000 | Office Furniture & Equipment $'000 | Leasehold Improve -ments $'000 | Motor Vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Balance as at 1 July 2015 | 278 | 2,229 | 56 | – | 26 | 2,589 |
| Additions | – | – | – | 41 | – | 41 |
| Disposals | – | – | – | – | – | – |
| Write off of assets | – | – | – | – | – | – |
| Depreciation expense | (278) | – | (18) | – | (5) | (301) |
| Balance as at 30 June 2016 | – | 2,229 | 38 | 41 | 21 | 2,329 |
| Additions | – | 128 | 94 | 115 | 50 | 387 |
| Disposals | – | – | (1) | – | (8) | (9) |
| Transfers In/Out | – | – | (57) | 57 | | – |
| Write off of assets | – | – | – | – | – | – |
| Depreciation expense | – | – | 20 | (63) | (2) | (45) |
| Balance as at 30 June 2017 | – | 2,357 | 94 | 150 | 61 | 2,662 |

Additions in leasehold improvements include a non-cash provision for make good of $51,000 that was provided for in this financial year. This provision relates to the lease over the property that the Company holds at Unit 12, 21 Howleys Road.

## Note 16. Non-current assets – intangibles

| | Consolidated | |
|---|---|---|
| | 2017<br>$'000 | 2016<br>$'000 |
| Capitalised development costs – at cost | 18,424 | 18,212 |
| Less: Accumulated amortisation and impairments | (9,885) | (8,941) |
| | 8,539 | 9,271 |
| Patents and trademarks – at cost | 713 | 713 |
| Less: Accumulated amortisation and impairments | (337) | (302) |
| | 376 | 411 |
| Licence rights – at cost | 4,542 | 4,472 |
| Less: Accumulated amortisation and impairments | (3,051) | (3,051) |
| | 1,491 | 1,421 |
| | **10,406** | **11,103** |

### Reconciliation of carrying amount

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

| Consolidated | Capitalised Development Costs $'000 | License Right $'000 s | Patents and Trademarks $'000 | Total $'000 |
|---|---|---|---|---|
| Balance as at 1 July 2015 | 10,033 | 1,421 | 446 | 11,900 |
| Additions | – | – | – | – |
| Impairment charge | – | – | – | – |
| Transfer to Exploration Asset | (394) | – | – | (394) |
| Amortisation expense | (368) | – | (35) | (403) |
| Balance as at 30 June 2016 | 9,271 | 1,421 | 411 | 11,103 |
| Additions | – | 70 | – | 70 |
| Impairment charge | – | – | – | – |
| Transfer to Exploration Asset | – | – | – | – |
| Amortisation expense | (732) | – | (35) | (767) |
| Balance as at 30 June 2017 | **8,539** | **1,491** | **376** | **10,406** |

| Carrying values of Cash Generating Units (CGUs) | Capitalised Development Costs $'000 | License Rights $'000 | Patents and Trademarks $'000 | Total $'000 |
|---|---|---|---|---|
| *As at 30 June 2016:* | | | | |
| Water | 4,836 | 121 | 205 | 5,162 |
| Metals | 4,435 | 1,300 | 206 | 5,941 |
| | **9,271** | **1,421** | **411** | **11,103** |
| *As at 30 June 2017:* | | | | |
| Water | 4,472 | 141 | 188 | 4,801 |
| Metals | 4,067 | 1,350 | 188 | 5,605 |
| | **8,539** | **1,491** | **376** | **10,406** |

The carrying amount of each CGU inclusive of assets other than intangible assets is $953,000 (2016: $30,000) for Water and $19,063,000 (2016: $7,662,000) for Metals.

### Amortisation

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

### Recoverability of development costs

The carrying amount of the Consolidated Entity's development intangible assets that are yet to be commercialised is reviewed at each reporting date for potential impairment. Impairment is now assessed at a CGU level rather than based on individual intangible assets capitalised due to the Consolidated Entity's technologies being platform technologies where cash flows are inter-dependent. The review consists of a comparison of the carrying value with the expected recoverable amount of the development intangible assets based on the estimated value in use, which is determined by discounted cash flow models, as set out below.

### Impairment test

As a result of the impairment assessment at 30 June 2017, the directors and management of the Consolidated Entity identified that no impairment charge be recognised (30 June 2016: impairment of $nil).

### Impairment testing of significant CGUs

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

- the status of an individual project with regard to its stage of project development;
- the extent of any incremental costs expected to be incurred to commercialise the development assets;
- five to twenty year (Metals CGU) forecast revenues from commercialisation of the development assets, including assumptions with respect to sales growth dependent upon either the quantum of projects forecast to commence;
- the risks attached to commercialising the asset, including any industry specific or regulatory risk;
- anticipated levels of competition; and
- other general economic factors.

The discounted cash flows have been prepared using a variety of sourced data such as sales data from Memoranda of Understanding signed, anticipated sales resulting from discussions with potential customers and other market data to forecast future revenue. Forecast production and processing results and capital and operating costs are estimated by appropriately qualified and competent personnel engaged by the Consolidated Entity for both the Water and Metals CGUs. As there are no guarantees that new projects will be awarded, given regulatory approval where such approval is required, or be commercialized within planned timeframes, there is an inherent risk attached to the discounted cash flows that is factored into the key assumptions by way of probability factor adjustments.

In generating the forecast cash flows, the Consolidated Entity has used forecast prices of US$7.50/lb for nickel, US$12/lb for cobalt, US$1500/Kg for Scandium oxide and AUD/USD 0.75 and a post-tax discount rate of 15% (2016: 15%) for all future cash flows for a 20 year period for the Metals CGU. The Water CGU forecast cashflows include income derived from a mix of long term (20 years) and short to medium term (5 years), tolling arrangement and plant revenue projects using a discount rate of 15% post-tax. The discount rate was used in conjunction with a range of probability factors for both CGUs to reflect the current assessment of the likelihood of success of the forecast cashflows.

Management note that reasonably possible changes in key assumptions include changes to probability factors applied to forecast cash flows, changes in the timing of cash flows and changes to assumed rates of market penetration. The most significant potential changes and their impact, independent of each other, on the carrying values to be tested for impairment are as follows at 30 June 2017:

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| A reduction of 10% in the probability factors applied to forecast cash flows | – | – |
| A delay of six months in the commencement of forecast cash flows | – | – |
| A change of 2% in the weighted average cost of capital | – | – |
| An increase of 5% in operating expenditure | – | – |
| A reduction of 5% in commodity prices | – | – |
| A reduction of 5% in production yield | – | – |
| An increase of 5% in foreign currency exchange rates | – | – |
| An increase of 10% in capital expenditure | – | – |
| | **–** | **–** |

Management's conclusion is that these changes in key assumptions, while reducing the recoverable amounts of the Consolidated Entity's technologies, would not, as at 30 June 2017, reduce the recoverable amounts to the extent that the development intangible assets would be impaired. Therefore, reasonably possible changes in key assumptions are unlikely to result in an impairment at 30 June 2017 (30 June 2016: nil).

## Note 17. Non-current assets – Exploration & evaluation assets

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| At the beginning of the financial year | 3,201 | 246 |
| Transfer from intangibles | – | 394 |
| Reversal of accrual | (351) | – |
| Additions | 13,619 | 4,657 |
| R&D incentive on exploration asset off-set | (2,088) | (2,096) |
| Disposals/Write offs | (2) | – |
| At end of the financial year | **14,379** | **3,201** |

### Exploration tenement summary

| Licence Number | Project Name | Location | Equity Interest 2017 | Equity Interest 2016 |
|---|---|---|---|---|
| EL4573 | Syerston | NSW | 100% | 100% |
| EL8561 | Syerston | NSW | 100% | -% |

## Note 18. Current liabilities – trade and other payables

| | Consolidated | |
|---|---|---|
| | 2017<br>$'000 | 2016<br>$'000 |
| Trade payables | 2,520 | 412 |
| Other payables | 652 | 303 |
| | **3,172** | **715** |

## Note 19. Current liabilities – employee benefits

| | Consolidated | |
|---|---|---|
| | 2017<br>$'000 | 2016<br>$'000 |
| Annual leave | 168 | 135 |
| Long service leave | 132 | 139 |
| | **300** | **274** |

## Note 20. Deferred revenue

| | Consolidated | |
|---|---|---|
| | 2017<br>$'000 | 2016<br>$'000 |
| *Current* | | |
| Government grant* | 47 | 46 |
| *Non-Current* | | |
| Government grant* | 495 | 544 |
| | **542** | **590** |

* This relates to the Commonwealth government grant money received associated with the Climate Ready project. This income is being recognised over 17 years, being the estimated useful life of the related asset.

# Notes to the Financial Statements

continued

## Note 21. Notes payable

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| *Current* | | |
| Notes Payable | 2,850 | – |
| *Non-Current* | | |
| Notes Payable | – | 2,684 |
| | **2,850** | **2,684** |

As part of the acquisition of the Syerston Project from Ivanhoe Mines Ltd on 31 March 2015, a promissory note was issued by the Consolidated Entity with a face value of $3,000,000 payable in three years' time and carrying a zero coupon. This promissory note is secured by first ranking mortgages against the real property of the Syerston Project. The promissory note is recognised at its amortised cost of $2,850,000 (30 June 2016: amortised cost of $2,684,000).

## Note 22. Non-current liabilities/assets – deferred tax

| | Consolidated Balance as at 30 June 2017 | | | | |
|---|---|---|---|---|---|
| | Net balance 1 July 2016 $'000 | Recognised in profit or loss $'000 | Recognised directly in equity $'000 | Deferred tax assets $'000 | Deferred tax liabilities $'000 |
| *Deferred tax asset (liability) comprises temporary differences attributable to:* | | | | | |
| Amounts recognised in: | | | | | |
| • Intangible assets | (2,626) | 421 | – | – | (2,206) |
| • Unearned interest | – | 17 | | 17 | |
| • Accrued expenses | 188 | (65) | – | 123 | – |
| • Employee benefits | 95 | 6 | – | 101 | – |
| • Transaction costs on share issues | 259 | – | (7) | 252 | – |
| • Legal and consulting fees | 11 | 6 | – | 17 | – |
| • Plant & equipment | 2 | 9 | – | 11 | – |
| • Unused tax losses | 2,071 | (387) | – | 1,684 | – |
| Tax liabilities (assets) before set-off | – | | | | |
| Set off deferred tax assets/liabilities | – | | | 2,206 | (2,206) |
| Net tax liabilities (assets) | – | | | (2,206) | 2,206 |
| *Movements 2017* | | | | | |
| Opening balance | – | | | | |
| Charges to profit or loss (note 8) | – | | | | |
| Closing balance | – | | | | |

In May 2017, the Australian Government enacted a change in the Australian corporate tax rate from 30% to 27.5% from 1 July 2016 for companies with turnover of less than $10m, and so the deferred tax balances have been recalculated at the new rate. This recalculation of deferred tax balances as well as current year movement in the balances, are reflected in the movement in temporary differences above.

## Note 23. Non-current liabilities – employee benefits

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Annual leave and long service leave | 68 | 41 |

## Note 24. Provisions

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Provision for Make Good at end of lease | 55 | – |

# Notes to the Financial Statements

continued

## Note 25. Equity – issued capital

| | Consolidated | | | |
|---|---|---|---|---|
| | 2017 Shares | 2016 Shares | 2017 $'000 | 2016 $'000 |
| Ordinary shares – fully paid | 576,266,310 | 437,052,097 | 137,517 | 39,856 |

### Movements in ordinary share capital

| Details | Date | Shares | Issue Price | $'000 |
|---|---|---|---|---|
| Balance | 1 July 2016 | 437,052,097 | | 39,856 |
| Exercise of Options by Option Holder | 4 July 2016 | 200,000 | $0.40 | 79 |
| Exercise of Options by Option Holder | 6 July 2016 | 2,000,000 | $0.15 | 290 |
| Exercise of Options by Option Holder | 18 August 2016 | 500,000 | $0.28 | 141 |
| Exercise of Options by Option Holder | 23 August 2016 | 33,000 | $0.30 | 10 |
| Share placement | 8 November 2016 | 38,461,538 | $0.39 | 15,000 |
| Exercise of Options by Option Holder | 14 February 2017 | 53,155 | $0.30 | 16 |
| Exercise of Options by Option Holder | 20 February 2017 | 500,000 | $0.28 | 141 |
| Exercise of Options by Option Holder | 2 March 2017 | 44,577 | $0.30 | 13 |
| Exercise of Options by Option Holder | 7 March 2017 | 33,223 | $0.30 | 10 |
| Exercise of Options by Option Holder | 10 March 2017 | 500,000 | $0.28 | 141 |
| Exercise of Options by Option Holder | 16 March 2017 | 91,773 | $0.30 | 28 |
| Exercise of Options by Option Holder | 21 March 2017 | 43,479 | $0.30 | 13 |
| Share placement | 24 March 2017 | 92,518,888 | $0.88 | 81,417 |
| Exercise of Options by Option Holder | 28 April 2017 | 100,000 | $0.28 | 28 |
| Exercise of Options by Option Holder | 5 May 2017 | 100,000 | $0.28 | 28 |
| Exercise of Options by Option Holder | 5 May 2017 | 500,000 | $0.12 | 58 |
| Exercise of Options by Option Holder | 5 June 2017 | 288,745 | $0.12 | 33 |
| Exercise of Options by Option Holder | 9 June 2017 | 1,211,255 | $0.12 | 140 |
| Exercise of Options by Option Holder | 9 June 2017 | 2,000,000 | $0.15 | 291 |
| Exercise of Options by Option Holder | 16 June 2017 | 34,580 | $0.30 | 10 |
| Capital raising costs | | | | (226) |
| Balance | 30 June 2017 | **576,266,310** | | **137,517** |

### Ordinary shares

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

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

### Share buy-back

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

### Capital risk management

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

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

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements. The capital risk management policy remains unchanged from the 30 June 2015 Annual Report.

## Note 26. Equity – reserves

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Share based payments reserve | 8,484 | 3,302 |
| | **8,484** | **3,302** |

### Movements in reserves

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

| Consolidated | Foreign Currency Reserve $'000 | Share Based Payments $'000 | Total $'000 |
|---|---|---|---|
| Balance as at 1 July 2015 | – | 1,063 | 1,063 |
| Gain on sale transactions with equity holders | – | – | – |
| Lapsed options | – | – | – |
| Transfer to accumulated losses | – | – | – |
| Share based payments | – | 2,239 | 2,239 |
| Balance as at 30 June 2016 | – | 3,302 | 3,302 |
| Gain on sale transactions with equity holders | – | – | – |
| Lapsed options | – | – | – |
| Transfer to accumulated losses | – | – | – |
| Share based payments | – | 5,182 | 5,182 |
| **Balance as at 30 June 2017** | **–** | **8,484** | **8,484** |

## Note 27. Equity – accumulated losses

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Accumulated losses at the beginning of the financial year | (20,433) | (14,010) |
| Loss after income tax expense for the year | (12,184) | (6,423) |
| Transfer from share based payments reserve | – | – |
| | **(32,617)** | **(20,433)** |

# Notes to the Financial Statements

continued

## Note 28. Equity – dividends

### Dividends

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

### Franking credits

| | Consolidated | |
|---|---|---|
| | 2017<br>$'000 | 2016<br>$'000 |
| Franking credits available for future years based on a tax rate of 30% | – | – |

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

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. In accordance with the tax consolidation legislation, the Company as the head Entity in the tax Consolidated Entity has assumed the benefit of franking credits of $nil (2016: $nil).

## Note 29. Financial instruments

### Financial risk management objectives

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

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

The Consolidated Entity has exposure to the following risks from their use of financial instruments:

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

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

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

### Market risk

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

### Foreign currency risk

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

### Interest rate risk

The Consolidated Entity currently has no significant debt subject to variable interest rates. Accordingly the Consolidated Entity has limited exposure to interest rate movements. The Consolidated Entity has a term deposit facility used as security for bank guarantees and credit card debts, and short term deposit facilities with variable interest rates which mature within 90 days.

### Fair value sensitivity analysis for fixed-rate instruments

The Consolidated Entity does not account for any fixed-rate financial assets or liabilities at fair value through profit or loss, and the Consolidated Entity does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss. A change of 100 basis points in interest rates would have increased or decreased equity by approximately nil after tax (2016: $nil).

## Credit risk

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

### Trade and other receivables

The Consolidated Entity's exposure to credit risk relating to trade and other receivables of $993,000 (2016: $302,000) is influenced mainly by the individual characteristics of each customer. The demographics of the Consolidated Entity's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. Geographically there is an Australian concentration of credit risk.

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

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

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal Entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. The Consolidated Entity's trade and other receivables relate mainly to the Group's wholesale customers who are predominantly made up of public companies and government bodies. Customers that are graded as "high risk" are placed on a restricted customer list, and future sales are made on a prepayment basis with approval of executive management. From inception to the date of this report, the Consolidated Entity has only ever had two minor trade bad debts. Refer to note 10 for debtors aging analysis.

### Guarantees

The Consolidated Entity's policy is to provide financial guarantees only to wholly-owned subsidiaries. As at the reporting date, there are no outstanding guarantees.

### Cash and cash equivalents

The Consolidated Entity held cash and cash equivalents of $88,863,000 as at 30 June 2017 (2016: $7,226,000). The cash and cash equivalents are held with top tier banks.

## Liquidity risk

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

The Consolidated Entity adopts milestone and progress invoicing, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Consolidated Entity ensures that it has sufficient cash on demand to meet expected operational expenses for a period of not less than 90 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

### Exposure to liquidity risk

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

| Consolidated – 2017 | Carrying amount $'000 | Contractual cash flows<br>1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Non–derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | 2,520 | 2,520 | – | – | – | 2,520 |
| Other payables | 652 | 652 | – | – | – | 652 |
| Notes payable | 2,850 | 3,000 | – | – | – | 3,000 |
| *Interest bearing – fixed rate* | | | | | | |
| Deferred consideration payable | – | – | – | – | – | – |
| Total non-derivatives | 6,022 | 6,172 | – | – | – | 6,172 |

| Consolidated – 2016 | Carrying amount $'000 | Contractual cash flows<br>1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Non–derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | 412 | 412 | – | – | – | 412 |
| Other payables | 303 | 303 | – | – | – | 303 |
| Notes payable | 2,684 | – | 3,000 | – | – | 3,000 |
| *Interest bearing – fixed rate* | | | | | | |
| Deferred consideration payable | – | – | – | – | – | – |
| Total non-derivatives | 3,399 | 715 | 3,000 | – | – | 3,715 |

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

### Fair value of financial instruments

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

Borrowings are recognised at fair value of consideration received, net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method. In estimating amortised cost the Consolidated Entity takes into account its borrowing capacity and the source of its borrowings. The categorisation of the borrowings based on the fair value hierarchy is detailed in note 30.

## Note 30. Fair value measurement

### Fair value hierarchy

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

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

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

Level 3: Unobservable inputs for the asset or liability

| | | Fair value | | | |
|---|---|---|---|---|---|
| Consolidated – 2017 | Carrying amount $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
| *Financial assets not measured at fair value* | | | | | |
| Cash and cash equivalents | 88,863 | – | – | – | – |
| Trade and other receivables | 993 | – | – | – | – |
| Other financial assets | 80 | – | – | – | – |
| | 89,936 | – | – | – | – |
| *Financial liabilities not measured at fair value* | | | | | |
| Trade and other payables | (3,172) | – | – | – | – |
| Other borrowings | – | – | – | – | – |
| Notes payable | (2,850) | – | (2,892) | – | (2,892) |
| | (6,022) | – | (2,892) | – | (2,892) |

| | | Fair value | | | |
|---|---|---|---|---|---|
| Consolidated – 2016 | Carrying amount $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
| *Financial assets not measured at fair value* | | | | | |
| Cash and cash equivalents | 7,226 | – | – | – | – |
| Trade and other receivables | 302 | – | – | – | – |
| Other financial assets | 377 | – | – | – | – |
| | 7,905 | – | – | – | – |
| *Financial liabilities not measured at fair value* | | | | | |
| Trade and other payables | (715) | – | – | – | – |
| Other borrowings | – | – | – | – | – |
| Notes payable | (2,684) | – | (2,691) | – | (2,691) |
| | (3,399) | – | (2,691) | – | (2,691) |

There were no transfers between levels during the financial year.

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

# Notes to the Financial Statements

continued

### Financial instruments measured at fair value – valuation technique

| Type | Valuation technique | Significant unobservable inputs |
|---|---|---|
| Promissory notes | Discounted cash flows | Risk adjusted discount rate of 6.69% (2016: 6.69%) |

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

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

## Note 31. Key management personnel disclosures

### Directors

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

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

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

Sam Riggall (Managing Director)

Peter Voigt (Executive Director)

Li Binghan (Non-Executive Director)

Ian Finlayson (Independent Non-Executive Director)

Roger Harley (Independent Non-Executive Director)

Ian Knight (Independent Non-Executive Director)

Stefanie Loader (Independent Non-Executive Director)

Mike Spreadborough (Independent Non-Executive Director)

### Other key management personnel

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

Scott Magee (Syerston Project Director)

Ben Stockdale (Chief Financial Officer)

### Compensation

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

| | Consolidated | |
|---|---|---|
| | 2017<br>$ | 2016<br>$ |
| Short-term employee benefits | 1,118,674 | 768,182 |
| Post-employment benefits | 93,739 | 65,018 |
| Long-term benefits | 29,615 | 10,595 |
| Termination benefits | – | – |
| Share-based payments | 4,212,906 | 1,276,990 |
| | **5,434,934** | **2,120,785** |

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

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

Apart from the details disclosed in this note and note 35, no director has entered into a material contract with the Consolidated Entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at the year end.

## Note 32. Remuneration of auditors

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

| | Consolidated | |
|---|---|---|
| | 2017<br>$ | 2016<br>$ |
| *Audit services – KPMG* | | |
| Audit or review of the financial statements | 64,201 | 60,000 |
| Audit-related services | – | – |
| | 64,201 | 60,000 |
| *Other services – KPMG* | | |
| Advisory services | – | – |
| Taxation services | 76,500 | 88,650 |
| | 76,500 | 88,650 |
| | **140,701** | **148,650** |

## Note 33. Contingent liabilities

The Consolidated Entity has a contingent liability, incurred in the financial year ended 30 June 2015, to pay a 2.5% gross revenue royalty on output mined from the Syerston Project. This royalty is payable to Ivanhoe Mines, and is payable by Scandium 21 Pty Ltd, a company within the consolidated group. This royalty was part of the consideration paid for the acquisition of the Syerston Project from Ivanhoe Mines, on 31 March 2015.

## Note 34. Commitments

| | Consolidated | |
|---|---|---|
| | 2017<br>$'000 | 2016<br>$'000 |
| *Hire purchases* | | |
| *Committed at the reporting date and recognised as liabilities, payable:* | | |
| Within one year | – | – |
| One to five years | – | – |
| | – | – |
| Total commitment | – | – |
| Less: Future finance charges | – | – |
| Net commitment recognised as liabilities | **–** | **–** |
| *Operating leases (non-cancellable)* | | |
| *Committed at the reporting date but not recognised as liabilities, payable:* | | |
| Within one year | 275 | 75 |
| One to five years | 1,032 | – |
| More than five years | 25 | – |
| | **1,332** | **75** |

The Group has a capital commitment of $1,205,000 relating to the purchase of land which is expected to be settled by July 2017.

## Note 35. Related party disclosures

### Parent Entity

Clean TeQ Holdings Limited is the Parent Entity.

### Subsidiaries

Interests in subsidiaries are set out in note 37.

### Key management personnel

Disclosures relating to key management personnel are set out in note 31 and the remuneration report in the directors' report.

### Transactions with related parties

No transactions occurred with related parties during the financial year ending 30 June 2017, or the previous financial year.

### 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

There were no loans outstanding at the reporting date owed to related parties.

## Note 36. Parent entity information

Set out below is the supplementary information about the Parent Entity.

### Statement of profit or loss and other comprehensive income

| | Parent | |
|---|---|---|
| | 2017<br>$'000 | 2016<br>$'000 |
| Profit(loss) after income tax | (5,949) | (2,452) |
| Total comprehensive income/(loss) | **(5,949)** | **(2,452)** |

### Statement of financial position

| | Parent | |
|---|---|---|
| | 2017<br>$'000 | 2016<br>$'000 |
| Total current assets | – | – |
| Total assets | 141,215 | 40,032 |
| Total current liabilities | 2,850 | – |
| Total liabilities | 9,541 | 5,253 |
| Equity | | |
| Issued capital | 137,517 | 39,856 |
| Share-based payments reserve | 8,484 | 3,302 |
| Accumulated losses | (14,328) | (8,379) |
| Total equity | **131,673** | **34,779** |

### Guarantees entered into by the Parent Entity in relation to the debts of its subsidiaries

The Parent Entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2017 and 30 June 2016, other than the cross guarantee referred to elsewhere in these financial statements.

### Contingent liabilities

The Parent Entity had no contingent liabilities as at 30 June 2017 and 30 June 2016.

### Capital commitments – Property, plant and equipment

The Parent Entity had no capital commitments for property, plant and equipment at as 30 June 2017 and 30 June 2016, or since the end of the financial year.

### Significant accounting policies

The accounting policies of the Parent Entity are consistent with those of the Consolidated Entity, as disclosed in note 2, except for the following:

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

## Note 37. Interests in subsidiaries

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

| Name | Principal place of business / Country of incorporation | Ownership interest 2017 % | Ownership interest 2016 % |
|---|---|---|---|
| Clean TeQ Limited | Australia | 100% | 100% |
| Clean TeQ Metals Pty Ltd | Australia | 100% | 100% |
| Clean TeQ Water Pty Ltd | Australia | 100% | 100% |
| Associated Water Pty Ltd | Australia | 100% | 100% |
| LiXiR Functional Foods Pty Ltd | Australia | 100% | 100% |
| Scandium Holding Company Pty Ltd | Australia | 100% | 100% |
| Scandium21 Pty Ltd | Australia | 100% | 100% |
| Clean World Japan Co Ltd *** | Japan | -% | 100% |
| Uranium Development Pty Ltd | Australia | 100% | 100% |
| CLQW HK Limited | Hong Kong | 100% | 100% |
| Syerston Scandium Pty Ltd | Australia | 100% | 100% |
| Shanyi Hoyo Clean TeQ Environmental Co Ltd* | China | 50% | -% |
| Clean Teq Environmental Protection Technology(Beijing) co., Ltd** | China | 100% | -% |

* JV company set up in July 2016.

** Chinese entity set up during the year.

*** Liquidated on 9 February 2016.

## Note 38. Deed of cross guarantee

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

Clean TeQ Holdings Limited

Clean TeQ Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

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

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

| Statement of profit or loss and other comprehensive income | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Revenue | 1,040 | 1,183 |
| Raw materials and other direct costs | (76) | (61) |
| Employee benefits expenses | (8,608) | (4,028) |
| Impairment of investment in subsidiary | – | – |
| Depreciation and amortisation expenses | (802) | (435) |
| Legal and professional expenses | (489) | (511) |
| Occupancy expenses | (359) | (329) |
| Marketing expenses | (746) | (520) |
| Impairment of loan | – | (326) |
| Other expenses | (157) | (764) |
| Finance costs | (170) | (274) |
| Loss before income tax (expense)/benefit | (10,367) | (7,183) |
| Income tax (expense)/benefit | – | – |
| Loss after income tax (expense)/benefit | (10,367) | (6,065) |
| Other comprehensive income for the year, net of tax | – | – |
| **Total comprehensive income for the year** | **(10,367)** | **(6,065)** |

| Equity – retained profits | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Retained profits/(accumulated losses) at the beginning of the financial year | (20,765) | (14,700) |
| Loss after income tax (expense)/benefit | (10,367) | (6,065) |
| Accumulated losses at the end of the financial year | **(31,132)** | **(20,765)** |

| Statement of financial position | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 88,861 | 7,192 |
| Trade and other receivables | 936 | 972 |
| Inventories | 96 | 96 |
| Income tax receivable | 2,088 | 2,395 |
| Other financial assets | – | 377 |
| | 91,981 | 11,032 |
| **Non-current assets** | | |
| Receivables | 20,607 | 7,222 |
| Other financial assets | 80 | – |
| Plant and equipment | 135 | 75 |
| Intangible assets | 9,036 | 9,805 |
| Investment in subsidiary companies | 1,055 | 253 |
| | 30,913 | 17,355 |
| **Total assets** | 122,894 | 28,387 |
| **Current liabilities** | | |
| Trade and other payables | 4,210 | 2,405 |
| Notes payable | 2,850 | – |
| Employee benefits | 300 | 274 |
| Deferred revenue | 47 | 46 |
| | 7,407 | 2,725 |
| **Non-current liabilities** | | |
| Deferred revenue | 495 | 544 |
| Notes payable | – | 2,684 |
| Employee benefits | 68 | 41 |
| Provisions | 55 | – |
| | 618 | 3,269 |
| **Total liabilities** | 8,025 | 5,994 |
| Net assets | **114,869** | **22,393** |
| **Equity** | | |
| Issued capital | 137,517 | 39,856 |
| Reserves | 8,484 | 3,302 |
| Accumulated losses | (31,132) | (20,765) |
| **Total equity** | **114,869** | **22,393** |

## Note 39. Events after the reporting period

No matters or circumstance has arisen since 30 June 2017 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 40. Reconciliation of cash used in operating activities

| | Note | Consolidated 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| Loss after income tax expense for the year | | (12,184) | (6,423) |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment | 7 | 813 | 704 |
| Share-based payments | 7 | 5,182 | 2,239 |
| Impairment of loan | 7 | – | 326 |
| Write off of bad debts | 7 | 2 | – |
| Non-cash finance costs | | 166 | 194 |
| Change in operating assets and liabilities: | | | |
| Decrease/(increase) in trade and other receivables | | (692) | (105) |
| Decrease/(increase) in other assets | | – | – |
| Decrease/(increase) in income tax refund due net of capitalised research and development | | 2,746 | 664 |
| (Increase)/decrease in accrued revenue | | (48) | (46) |
| Increase/(decrease) in trade and other payables | | 2,457 | 108 |
| Increase/(decrease) in employee benefits | | 54 | 6 |
| Net cash used in operating activities | | **(1,504)** | **(2,333)** |

## Note 41. Earnings per share

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| *Earnings per share for loss from continuing operations* | | |
| Loss after income tax attributable to the owners of Clean TeQ Holdings Limited | **(12,184)** | **(6,423)** |

| | 2017 Number | 2016 Number |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 490,055,864 | 412,872,218 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | **490,055,864** | **412,872,218** |

| | 2017 Cents | 2016 Cents |
|---|---|---|
| Basic earnings per share | (2.49) | (1.56) |
| Diluted earnings per share | (2.49) | (1.56) |

| | Consolidated | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| *Earnings per share for loss* | | |
| Loss after income tax attributable to the owners of Clean TeQ Holdings Limited | **(12,184)** | **(6,423)** |

| | 2017 Number | 2016 Number |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 490,055,864 | 412,872,218 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | **490,055,864** | **412,872,218** |

| | 2017 Cents | 2016 Cents |
|---|---|---|
| Basic earnings per share | (2.49) | (1.56) |
| Diluted earnings per share | (2.49) | (1.56) |

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

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

## Note 42. Share-based payments

On 24 September 2007 the Company introduced a share option plan for employees, directors and service providers of the Consolidated Entity ('the Plan'). The Plan entitles key management personnel, service providers and employees to receive shares and options in the Company.

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

| 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
| 30/06/2011 | 30/06/2016 | $0.3960 | 500,000 | – | (200,000) | (300,000) | – |
| 19/12/2014 | 19/06/2017 | $0.1155 | 2,000,000 | – | (2,000,000) | – | – |
| 19/12/2014 | 19/06/2017 | $0.1455 | 2,000,000 | – | (2,000,000) | – | – |
| 25/02/2015 | 25/02/2018 | $0.1574 | 8,000,000 | – | – | – | 8,000,000 |
| 01/03/2015 | 01/03/2018 | $0.1495 | 6,000,000 | – | (2,000,000) | – | 4,000,000 |
| 06/07/2015 | 30/06/2018 | $0.3010 | 1,000,000 | – | (333,787) | – | 666,214 |
| 20/11/2015 | 30/06/2018 | $0.2305 | 8,000,000 | – | – | – | 8,000,000 |
| 20/11/2015 | 31/03/2018 | $0.1450 | 2,000,000 | – | – | – | 2,000,000 |
| 20/11/2015 | 30/11/2018 | $0.2712 | 3,500,000 | – | – | – | 3,500,000 |
| 16/05/2016 | 16/05/2019 | $0.2820 | 5,000,000 | – | (1,700,000) | – | 3,300,000 |
| 25/08/2016 | 25/08/2019 | $0.6320 | – | 3,000,000 | – | (3,000,000) | – |
| 06/09/2016 | 16/05/2019 | $0.2820 | – | 1,000,000 | – | – | 1,000,000 |
| 06/09/2016 | 16/05/2019 | $0.3100 | – | 9,125,000 | – | – | 9,125,000 |
| 15/12/2016 | 15/12/2019 | $0.5850 | – | 500,000 | – | – | 500,000 |
| 22/02/2017 | 22/02/2020 | $0.6549 | – | 3,000,000 | – | – | 3,000,000 |
| 20/06/2017 | 20/06/2020 | $0.9500 | – | 600,000 | – | – | 600,000 |
| | | | 38,000,000 | 17,225,000 | (8,233,787) | (3,300,000) | 43,691,214 |
| Weighted average exercise price: | | | $0.2033 | $0.3407 | $0.1578 | $0.6306 | $0.1497 |

*Denotes options expired during the year

The weighted average number of years for share options issued under the Plan is 2.00 years (2016: 2.83 years).

The options vest immediately at grant date to the holder, except for 4,000,000 options granted on 20 November 2015, with a vesting date of 31 December 2015, the 3,000,000 options granted on 22 February 2017, and the 600,000 options granted on 20 June 2017. Of those options granted on 22 February 2017 and 20 June 2017, 50% of the options vest one year after grant date and the balance two years after grant date.

For the options granted during the current financial period, a Black-Scholes pricing model was used to value the options. The valuation model inputs used to determine the fair value at the grant date are as follows:

| 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Grant date | Expiry date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free Interest rate | Fair value at grant date |
| 25/08/2016 | 25/08/2019 | $0.50 | $0.6320 | 85.18% | -% | 1.85% | $0.248 |
| 06/09/2016 | 16/05/2019 | $0.55 | $0.2820 | 85.35% | -% | 1.90% | $0.378 |
| 06/09/2016 | 16/05/2019 | $0.55 | $0.3100 | 85.35% | -% | 1.90% | $0.367 |
| 15/12/2016 | 15/12/2019 | $0.55 | $0.5850 | 85.49% | -% | 2.87% | $0.300 |
| 22/02/2017 | 22/02/2020 | $0.80 | $0.6549 | 84.98% | -% | 2.84% | $0.439 |
| 20/06/2017 | 20/06/2020 | $0.73 | $0.9500 | 86.62% | -% | 2.41% | $0.382 |

Set out below are summaries of performance rights granted under the Plan:

| 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ Other* | Balance at the end of the year |
| 08/07/2015 | 01/07/2018 | $0.00 | 1,594,416 | – | – | (428,000) | 1,166,416 |
| 20/11/2015 | 01/07/2018 | $0.00 | 880,000 | – | – | – | 880,000 |
| 16/05/2016 | 01/07/2019 | $0.00 | 1,756,281 | – | – | (217,474) | 1,538,807 |
| 06/09/2016 | 06/09/2019 | $0.00 | – | 1,292,706 | – | – | 1,292,706 |
| | | | **4,230,697** | **1,292,706** | **–** | **(645,474)** | **4,877,929** |

*Performance rights forfeited as the employee ceased employment.

The performance rights have the following vesting conditions:

- Rights vesting if the Company's total shareholder return outperforms a comparator group of listed companies over a three year period from the grant date; and
- Continuous service from Date of Grant to Vesting Date.

For the performance rights granted during the current financial period, a Binomial Option Valuation model was used to value the performance rights. A probability adjustment for market vesting conditions is then attached to the value of the performance rights. Each performance right, once vested, entitles the performance right holder to receive one fully paid ordinary share in the Company for zero consideration. The valuation model inputs used to determine the fair value at the grant date are as follows:

| 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Grant date | Expiry date | Share price at grant date | Risk-free Interest rate | Expected | volatility Divi- dend yield | Vesting prob- ability | Fair value at grant date |
| 06/09/2016 | 06/09/2019 | $0.55 | 1.48% | 92.72% | -% | 35.07% | $0.195 |

# Directors' Declaration

In the directors' opinion:

- the attached Consolidated financial statements and notes thereto, and the Remuneration report in the Directors' reports, comply with the *Corporations Act 2001*, the Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached Consolidated financial statements and notes thereto, comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2(b) to the financial statements;
- the attached Consolidated financial statements and notes thereto and the Remuneration report in the Directors' reports, give a true and fair view of the Consolidated Entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 38 to the financial statements.

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

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

On behalf of the directors

Sam Riggall
Managing Director

25 August 2017

Melbourne

# Independent Auditor's Report

To the shareholders of Clean TeQ Holdings Limited

KPMG

# Independent Auditor's Report

To the shareholders of Clean TeQ Holdings Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the Financial Report of Clean TeQ Holdings Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The Group consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

KPMG

## Key Audit Matters

We have determined the matters described below to be the Key Audit Matters to be communicated in our report:

- Valuation assessment for intangible and exploration and evaluation (E&E) assets
- Recognition of research and development (R&D) tax concessions

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation assessment for intangible assets $10.4 million and exploration and evaluation (E&E) assets $14.4 million

Refer to significant accounting policies in Note 2 and Notes 16 and 17 to the Financial Report.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| A discounted cash flow model is used in determining the recoverable amount of the Metals and Water cash generating units (CGUs) to which intangible assets and E&E assets have been allocated. The valuation of the Metals and Water CGU intangible assets and E&E assets is a key audit matter due to the audit effort required by us in assessing the Group's judgements applied and inputs to the model, including:<br>• Discount rates applied to forecast cash flows, as each CGU displays unique conditions varying the assessment of discount rates<br>• Future resource prices<br>• Future foreign exchange rates<br>• For the Water CGU, forecasting the probability of converting tender pipeline into contracted revenue<br>• Future production/output, capital expenditure and operating costs. In particular, for the Metals CGU, the Group has not incurred any capital expenditure for production and has not yet commenced operations. Therefore future production/output, capital expenditure and operating costs are estimated based on management expertise/experience from other mining operations | Our procedures included:<br>• Working with our valuation specialists and utilising their expertise in assessing discounted cash flow models and the mining and water treatment industries, we independently calculated a discount rate range for each CGU and compared it to the discount rates used by the Group;<br>• Testing the acceptability from a valuation perspective of the discounted cash flow models used to determine the recoverable amount for each CGU in comparison to common market practice and accounting standard requirements;<br>• Performing sensitivity analysis in respect of the discount rates, future production/output, capital expenditure and operating costs future resource prices, future foreign exchange rates, to determine which inputs relative to the risk of impairment, had the most impact on the outcome of the models, and to focus our audit effort thereon;<br>• Comparing future resource prices and foreign exchange rates used in the models to external market data, such as publicly available forecasts and consensus views of market commentators as well as historical information to inform our view of price volatility and current period forecasts; |

KPMG

| | |
|---|---|
| • Reserves, including the success of exploration, and appraisal activities, including drilling and geological and geophysical analysis<br><br>In assessing this key audit matter, we involved senior audit team members, including valuation specialists, who understand the Group's business, industry and the economic environment it operates in. | • Reading tenders, correspondence with prospective clients, memorandums of understanding and contracts to inform our view of the likelihood of the tender pipeline being converted into contracted revenue;<br>• Comparing future production/output, capital expenditure and operating costs used in the Group's models to other market participants;<br>• For the Metals CGU, analysing the Group's determination of recoupment through successful development and exploitation of its reserves by evaluating the Group's documentation of planned future/continuing activities; and<br>• For the Metals CGU, we obtained the Group's project budgets identifying areas with existing funding and those requiring alternate funding sources. We compared this for consistency with current E&E expenditure, for evidence of the ability to fund continued activities. We identified those areas relying on alternate funding sources and evaluated the capacity of the Group to secure such funding. |

**Recognition of research and development (R&D) tax concessions $2.09 million**

Refer to significant accounting policies in Note 2 and Note 12 to the Financial Report.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| The Group submits annual claims to the Australian Tax Office (ATO) in respect of eligible Research and Development (R&D) expenditure. They are recognised as an income tax receivable until cash is received from the ATO.<br><br>The recognition of the asset for R&D tax concessions is a key audit matter as:<br><br>• Significant judgment is required in determining the eligibility of items included in the claim submitted to the ATO. We focus on the assessment of the eligibility of expenditure included in the Group's claim as a measure of the ultimate recognition of the amount of the tax asset. We involve our tax specialist given the complex nature of R&D claims, assessment against relevant tax legislation and rulings, and against criteria in the accounting standards for recognition. | Our procedures included:<br><br>• Assessing the Group's accounting policy for R&D tax concessions against applicable Australian Accounting Standards;<br>• Testing the management reconciliation review and approval control the Group use to determine what expenditure is eligible for an R&D tax concession by checking for evidence of management review and approval of the R&D tax concession schedule for a sample of months during the financial year;<br>• Selecting a sample of expenditure incurred during the year and checking these to underlying documentation such as invoices and contracts;<br>• Checking on claims previously submitted by the Group to the ATO compared to actual amounts received to check the historical accuracy of the Group's claims and inform the focus of our further procedures; |

| | |
|---|---|
| • The claims represent a significant portion of the Group's cash inflows in the year in which they are received and a significant portion of other income. | • Working with our R&D taxation specialists to assess the eligibility criteria of a sample of expenditure incurred, which is subject to claim and is not yet paid by the ATO, against current tax legislation and rulings; and<br>• Working with our R&D taxation specialists to evaluate the methodology and processes utilised by the Group in determining what expenditure is included within a claim, against current tax legislation and rulings and market practice. |

## Other Information

Other Information is financial and non-financial information in Clean TeQ Holdings Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report (excluding the Remuneration Report). The Other Information not obtained at the date of this Auditor's Report is the Chairman's Report and CEO's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor’s responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor’s Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor’s Report.

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Clean TeQ Holdings Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

### Directors’ responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

### Our responsibilities

We have audited the Remuneration Report included in paragraphs A to F or pages 17 to 30 of the Directors’ report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Dana Bentley

Partner

Melbourne

25 August 2017

# Shareholder Information

The information below is current as at 31 July 2017.

### Distribution of equity securities

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

| | Number of holders of ordinary shares | Number of holders of options over ordinary shares | Number of holders of convertible notes |
|---|---|---|---|
| 1 to 1,000 | 323 | – | – |
| 1,001 to 5,000 | 951 | – | – |
| 5,001 to 10,000 | 698 | – | – |
| 10,001 to 100,000 | 1,476 | – | – |
| 100,001 and over | 315 | 16 | – |
| | **3,763** | **16** | **–** |

### Equity security holders

#### Twenty largest quoted equity security holders

The names of the twenty largest security holders of fully paid ordinary shares as at 31 July 2017 are listed below:

| Rank | Name of Share Holder | Number of Shares Held | % of Total Shares Issued |
|---|---|---|---|
| 1 | J P MORGAN NOMINEES AUSTRALIA LIMITED | 139,279,699 | 24.17 |
| 2 | PENGXIN INTERNATIONAL GROUP LIMITED | 92,518,888 | 16.05 |
| 3 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 27,145,117 | 4.71 |
| 4 | CITICORP NOMINEES PTY LIMITED | 25,204,238 | 4.37 |
| 5 | THIERVILLE PTY LTD <THE STAR SUPER FUND A/C> | 18,106,120 | 3.14 |
| 6 | MR GREGORY LEONARD TOLL + MRS MARGARET ESTELLE TOLL <TOLL S/F A/C> | 13,617,765 | 2.36 |
| 7 | DAK DRAFTING SERVICES PTY LTD <PETER DIAMOND FAMILY A/C> | 13,000,000 | 2.26 |
| 8 | MR PETER JOHN DIAMOND + MRS DIANA ELIZABETH DIAMOND <PETER&DIANA DIAMOND S/F A/C> | 7,000,000 | 1.21 |
| 9 | GASMERE PTY LTD | 6,725,741 | 1.17 |
| 10 | SALITTER PTY LTD <THE SALITTER A/C> | 6,253,304 | 1.08 |
| 11 | JEREMY'S HAVEN PTY LTD | 5,690,310 | 0.99 |
| 12 | MR DAVID NEVILLE COLBRAN | 5,264,950 | 0.91 |
| 13 | BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAIL CLIENT DRP> | 5,240,944 | 0.91 |
| 14 | THREE ZEBRAS PTY LTD <THE JUDD FAMILY A/C> | 5,020,000 | 0.87 |
| 15 | THIERVILLE PTY LTD | 4,550,801 | 0.79 |
| 16 | MAL CLARKE & ASSOCIATES PTY LTD <MAL CLARKE FAMILY A/C> | 4,029,985 | 0.70 |
| 17 | MR RICHARD ARMSTRONG CALDOW <THE LOOSE GOOSE FAMILY A/C> | 4,000,000 | 0.69 |
| 18 | TT NICHOLLS PTY LTD <SUPERANNUATION A/C> | 3,786,000 | 0.66 |
| 19 | BNP PARIBAS NOMS PTY LTD < DRP> | 3,684,122 | 0.64 |
| 20 | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 3,652,836 | 0.63 |
| **Total – Top 20 holders of Ordinary Fully Paid Shares** | | **393,770,820** | **68.32** |
| **Total – Shares Issued** | | **576,332,755** | **100.00** |

### (Unquoted equity securities)

| | Number on issue | Number of holders |
|---|---|---|
| Options over ordinary shares with various exercise prices and expiry dates | 43,691,214 | 16 |

## Substantial holders

Substantial holders in the Company are set out below:

| Name of Share Holder | Number held | Ordinary Shares% of total shares issued |
|---|---|---|
| JP Morgan Nominees Australia Pty Ltd | 139,279,699 | 24.17 |
| Pengxin International Group Limited | 92,518,888 | 16.05 |

## Voting rights

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

### Ordinary shares

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

There are no other classes of equity securities.

this page has been left blank intentionally

# Corporate Directory

30 June 2017

## DIRECTORS

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

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

Sam Riggall (Managing Director)

Eric Finlayson (Independent Non-Executive Director)

Ian Knight (Independent Non-Executive Director)

Roger Harley (Independent Non-Executive Director)

Mike Spreadborough (Independent Non-Executive Director)

Li Binghan (Non-Executive Director)

Stefanie Loader (Independent Non-Executive Director)

## COMPANY SECRETARY

Melanie Leydin

## PRINCIPAL PLACE OF BUSINESS & REGISTERED OFFICE

Unit 12, 21 Howleys Road
Notting Hill, Victoria, 3168
Telephone: +61 (03) 9797 6700
Fax: +61 (03) 9706 8344

## SHARE REGISTER

Automic Pty Ltd
Level 3, 50 Holt Street
Surry Hills NSW 2010
Telephone: +61 (02) 9698 5414
Fax: +61 (02) 8583 3040
Email: hello@automic.com.au

## AUDITORS

KPMG
Tower Two
Collins Square
727 Collins Street
Melbourne, Victoria 3008

## LEGAL ADVISORS

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

## STOCK EXCHANGE LISTING

Clean TeQ Holdings Limited shares are listed on the Australian Securities Exchange (ASX: CLQ)

## WEBSITE

www.cleanteq.com

www.colliercreative.com.au #CLT0003

CLEAN TEQ

Powering innovation