



Carnegie Clean Energy Limited

Annual Report

2019

Corporate Directory

Directors

| | |
|---------------------|--------------------------------------|
| Terry Stinson | Non-Executive Chairman |
| Michael Fitzpatrick | Non-Executive Director |
| Grant Mooney | Non-Executive Director |
| Anthony Shields | Non-Executive Director (Proposed) |

Chief Executive Officer

Jonathan Fiévez

Company Secretary

Grant Mooney

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Share Registry

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Auditors

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Lawyers

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Perth WA 6000

Website: www.carnegiece.com

ASX Code: CCE

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Chairman's Report

On behalf of the Carnegie Clean Energy team and my fellow Board members, I am pleased to have the opportunity to report on the events of this year including our combined efforts to recapitalise the business since Carnegie went into voluntary administration in March. I would also like to provide some insights on the new Carnegie and what we plan to accomplish over the coming year.

In last year's Annual Report, Carnegie had already made clear its intentions to divest EMC. During the first part of this year, Carnegie progressed diligently towards a divestment of the EMC Business to MPower Limited (formerly TAG Pacific Limited). However, on 30 November 2018, the agreement to divest the EMC Business was terminated. Management and the Board continued to look for a viable EMC sale and other funding and diversification options. Unfortunately, these engagements did not progress to a level of confidence sufficient to resolve the remaining challenges around EMC. So, on 14 March 2019, the Company appointed Richard Tucker and John Bumbak of KordaMentha Restructuring as voluntary administrators of the Company and certain subsidiaries, including EMC.



Rebooting and relisting the business has been our primary objective since the business entered voluntary administration in March. During this time the Board and management have conducted a comprehensive strategic and technical review of the business. A new business strategy and plan was developed and presented to shareholders as part of the Recapitalisation Proposal outlined in the Prospectus dated 31 July 2019. This Recapitalisation Proposal was presented by CEO, Jonathan Fiévez and fellow board member, Grant Mooney, to our shareholders and potential investors via a town hall meeting and webinar on 19 August 2019. The Prospectus outlined Carnegie's plan for the next two years and highlighted the key milestones of the new digital development pathway that when achieved should demonstrate progress on the path to future wave energy technical and commercial success. To be clear, to realise Carnegie's full potential will take longer than two years. However, achieving the milestones highlighted in the Recapitalisation Proposal will demonstrate to our funding and technology partners, to future customers, and hopefully to our shareholders, that we are on the right track and have the potential to create significant shareholder value from the CETO technology. We continue to believe that our CETO technology, as part of the emerging wave energy industry, can be a major contributor to the reduction in harmful emissions and contribute to a cleaner world for generations to come.

I am pleased to report that Carnegie has achieved the minimum subscription amount of \$5.5 million dollars required to fulfil obligations outlined under the Prospectus. The funds received were predominately from existing shareholders, combined with funds from new third-party investors. On behalf of the Board and the whole team, to all those who invested in Carnegie's recent capital raise, please accept our thanks for your continued support and for your confidence in the team and the wave energy opportunity. Carnegie can now begin to rebuild and restart our efforts to create future shareholder value through wave energy related activities.

Carnegie's strategy, as outlined in the Prospectus, builds on the ten years plus of Carnegie's investment in intellectual property (IP) and know-how and is focused on deriving future revenue from related licensing and royalties. This new plan to commercialise avoids the previous need for Carnegie shareholders to fully or substantially fund large capital infrastructure projects to demonstrate wave energy technical feasibility. Carnegie will still seek to utilise appropriate Government funding to support the development and commercialisation of the CETO technology.

The new digital development pathway will use advanced analytical models that have already been developed within the company and new modelling capabilities developed over the next two years. The new IP and knowhow that will be created, combined with the existing IP, will be the keys to creating future shareholder value and to securing one or more significant large scale industry partners or OEMs to support and finance a physical CETO build, once the system and hardware are designed and proven through Carnegie's advanced modelling and in-house test and validation processes.

The new Carnegie has a much simplified and easy to manage balance sheet with a more efficient commercialisation and technical development model facilitated by a lower cost digital development pathway. The result should be significantly lower operational costs and, more importantly, far less capital cost required to achieve the same goal. The goal being a commercially successful large-scale deployment of the CETO technology within the next 3 to 5 years. The business has approximately \$4.5m in cash upon reinstatement to ASX, which under the new operating model is projected to last well into 2021. During that time, the team will be working on additional sources of non-debt funding and working hard to avoid the need to come back to shareholders for further funds, however, to be transparent, future shareholder funding may be required to realise our full and longer-term potential.

Carnegie has also retained the Garden Island Microgrid facility which is now a revenue generating asset. The Garden Island asset can also be used to offset the requirement for new funding or be used to reduce debt as required.

The business has experienced a very significant cultural reset, which is to be expected considering the past twelve months and the road into, and emergence from administration. Reflecting on the past two years and the process of coming back from the brink has served to teach us painful but important lessons that are not soon forgotten. The board members and key staff have used this learning to bring the business back from administration as we believe in Carnegie and in wave energy. Through this process the Board and the team have become even more invested and have proven that they are committed to Carnegie's ultimate success. Anthony Shields, a long time Carnegie supporter and long-time shareholder joins as a new non-executive director and welcome team member. Jonathan Fiévez is also recognised having provided critical leadership and guidance as we developed a plan to achieve future success and bring the company back from administration to be reinstated on the ASX. The Board has confidence and fully support Jonathan and believe in his leadership, technical abilities and the team he has built to deliver on the goals and objectives set-out for the business.

Carnegie's culture change extends to how we will do business in the future, where the business will live and how carefully we will spend shareholder funds. The goal is to continuously strive to achieve more for less. Jonathan's new team is much smaller and now focused solely on CETO, related wave energy technologies and development of commercial strategies to deliver future revenues and shareholder value. Building on this new more frugal and efficient culture, the team will need to have a laser focus on delivering the key milestones presented in the two-year Recapitalisation Proposal. This frugality will also extend to corporate spending. For example, the Board will remain small and each board member will be taking an increasingly active role in the governance and guidance of the business. As an example of this frugality, you'll notice that this annual report is simplified with more basic graphic design, images and binding. These types of publications cost a lot of money and the shareholder funds are better spent on technical development and on customer marketing materials.

As I have communicated to many of you over the past year, the Board and management are committed to keeping shareholders informed of our progress against the milestones presented in the Recapitalisation Proposal, this will include both the good news and the bad news, the achievements and the set-backs.

There is much to do over the coming year, and we are fortunate and privileged to be able to restart the Carnegie Clean Energy business and extend gratitude again to our long term and new shareholders who invested and helped make this rebirth possible. The Board has the responsibility to ensure that these new shareholder funds are spent wisely and effectively, and we take this responsibility seriously. I look forward to the coming year and to presenting Carnegie's progress and future prospects at the upcoming AGM and in subsequent communications and shareholder meetings.



Terry Stinson
Chairman

Company Overview

Carnegie is an Australian incorporated ASX-listed 100% owner and developer of the CETO wave energy technology intellectual property (CETO Technology) which converts ocean wave energy into zero-emission electricity. From 2008 to 2016, Carnegie's sole focus was on developing the CETO Technology, pursuant to which the team was dedicated to advancing the CETO Technology and developing site applications both in Australia and internationally. This period culminated in the deployment of the 5th generation of the CETO Technology (being the CETO 5 Units) at Garden Island in Western Australia.

In April 2016, Carnegie commenced a diversification of its business with an acquisition of a 35% interest in Energy Made Clean Pty Ltd (EMC Co), the holder of the assets and undertakings comprising the EMC Business. In December 2016, Carnegie increased its investment to 100% ownership of EMC Co. Carnegie was unable to achieve the desired level of financial performance from the EMC Business due to a combination of factors, including EMC Co's array of challenging projects, onerous joint venture arrangements and legacy contracts.

On 14 March 2019, the Company appointed Richard Tucker and John Bumbak of KordaMentha Restructuring as voluntary administrators of the Company and certain subsidiaries, including EMC. Mooney & Partners (a Shareholder associated with Non-Executive Director, Mr Grant Mooney) and Asymmetric Credit Partners Pty Ltd (a secured creditor of the Company holding CCE Notes associated with Proposed Director, Mr Anthony Shields) presented the Administrators with a proposal to restructure and recapitalise Carnegie to return to being a wave energy business through a deed of company arrangement. At Carnegie's second meeting of creditors held on 17 April 2019, creditors resolved in favour of the deed of company arrangement. At EMC's second meeting of creditors held on 17 April 2019, creditors voted to put EMC into liquidation.

Carnegie released a Prospectus on 31 July 2019 outlining its new business strategy and plans and detailing the Entitlement Offer and other Offers that formed part of Carnegie's Recapitalisation. On 23 September 2019 Carnegie announced the successful completion of the capital raising, which raised the required \$5.5 million to enable Carnegie to re-emerge from administration.

Review of Operations

CETO Wave Energy Technology

During much of the year, Carnegie's wave energy team was working to advance the design of the CETO 6 unit, illustrated below, and conducting site development activities in Albany as part of the Albany Wave Energy Project (AWEP), with a view to offshore installation of a CETO Unit and associated onshore infrastructure.

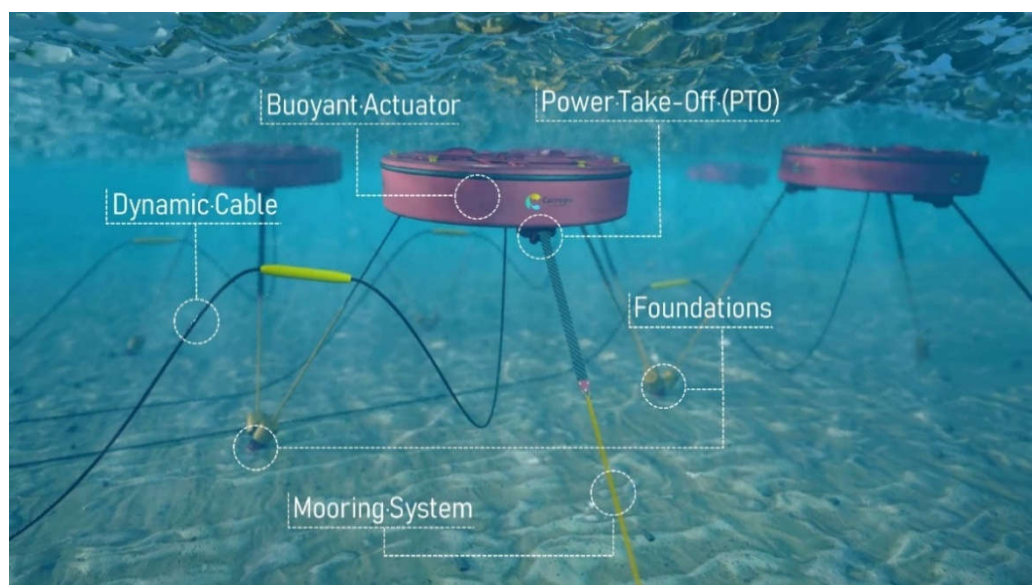


Illustration of the CETO Unit

The AWEP formally commenced in 2017 with support from the State of Western Australia through the Department of Primary Industries and Regional Development (DPIRD) and the Commonwealth Government through the Australian Renewable Energy Agency (ARENA). Following a series of events beginning with proposed changes to the R&D tax incentive scheme, DPIRD

introduced a requirement for Carnegie to provide evidence that it was financially capable of delivering the project and had the expertise and operational capacity to carry out the AWEF. The information provided by Carnegie specifically relevant to its financial capability to fund the project did not satisfy DPIRD, leading to termination of the funding agreement with DPIRD in March 2019 and the DPIRD funding being withdrawn. Carnegie's inability to satisfy the funding requirement was primarily due to the unsatisfactory financial performance of the EMC Business, coupled with difficulties in obtaining additional capital.

As a result of the withdrawal of the DPIRD funding, the Company has no current intention to proceed with AWEF. However, the Company continues to collaborate with the Wave Energy Research Centre at Albany and intends to maintain its licence in good standing. If the Company successfully implements its business strategy and successfully develops a commercial prototype CETO Unit, the Company and/or customers and partners may reconsider the Albany site for commercial deployment (in conjunction with other possible sites) due to the favourable conditions in Albany.

Throughout the year, regardless of political and financial challenges, Carnegie's wave team have continued diligently working on the development of the CETO technology. Carnegie continued strengthening its collaborative relationship with Enel Green Power (EGP) throughout the year including hosting EGP in Perth and being invited to present at Enel's internal marine energy conference in Italy.

Following the decision not to proceed with the Albany Wave Energy Project, the team focus shifted from delivering a CETO 6 Unit at Albany to focusing on the best way to deliver on the company's long-term objectives for delivering the CETO technology. This has included identifying and pursuing the key innovation and development opportunities outlined as part of the digital development pathway in the Recapitalisation Proposal. The team is already actively progressing along this new pathway. For instance, the Machine Learning work outlined in the Recapitalisation Proposal is already advancing well and is already providing promising results as was demonstrated in the August webinar and town hall meetings.

Following completion of the Recapitalisation Proposal, Carnegie will pursue its revised business strategy focusing on undertaking concentrated research and development activities to optimise the CETO Unit design, by applying machine learning (artificial intelligence), new low-cost electrical generators, optimised system configuration and modern hydrodynamic approaches. The new approach being undertaken is outlined further in the Future Business Strategy and Plans Section.

Garden Island Microgrid (GIMG)

During the year, Carnegie completed the commissioning of its 2MW solar PV installation and 2MW/0.5MWh battery energy storage system constructed by EMC and which is the subject to an arrangement with the Department of Defence (DoD). The GIMG is located at Fleet Base West/HMAS Stirling and operates under a 15-year agreement with the DoD for the supply of electricity to HMAS Stirling. The first period concludes in May 2022 but may be extended by two further option terms of five years each. A water supply agreement is also in place to facilitate water sales from the associated desalination plant that is co-located with the solar-battery system.

The GIMG received the Approval to Operate from Western Power in late June 2019 and in late July received final sign-off from DoD and commenced operations.



Garden Island Microgrid

Northam Solar Farm

In early 2019, the Northam Solar Farm received approval to operate from Western Power and commenced operating and exporting to the grid. During the year, Carnegie also completed a partial sale of its interest in the Northam Solar Farm to Indigenous Business Australia. As part of the administration process, Carnegie's remaining interest in the Northam Solar Farm will not carry forward to the recapitalised Carnegie and the proceeds from the sale of Carnegie's

interest will be received into the Creditor's Trust.

EMC

During the year, the EMC business was focused on delivering key projects such as the Northam Solar Farm, Delamere Microgrid and Garden Island Microgrid and progressed several other projects through its Joint Venture with Lendlease.

Carnegie was unable to achieve the desired level of financial performance from the EMC Business due to a combination of factors, including EMC Co's array of challenging projects, onerous joint venture arrangements and legacy contracts. The financial performance of the EMC Business consumed capital that could have been utilised in pursuing the development of the CETO Technology. As such, during 2018, Carnegie progressed towards a divestment of the EMC Business to MPower Limited (formerly TAG Pacific Limited). However, on 30 November 2018, the agreement to divest the EMC Business was terminated following the counterparty not satisfying key conditions to the transaction.

Carnegie continued in its efforts to dispose of the EMC Business. Prior to the appointment of the Administrators in March 2019, Carnegie had been conducting a sale process for the EMC Business and held discussions with potential acquirers but had not received any firm proposals. The failure of the EMC Business to deliver profits and the incidence of losses on a number of key projects forced Carnegie to consider seeking further capital from shareholders and the investment market in order to fund its overall business operations and corporate overheads.

On 14 March 2019, the Company appointed Richard Tucker and John Bumbak of KordaMentha Restructuring (Administrators) as voluntary administrators of the Company and certain subsidiaries, including EMC Co. At the meeting of EMC Creditors on 17 April 2019, EMC was placed into liquidation. Accordingly, EMC is currently in liquidation and will no longer form part of Carnegie.

Future Business Strategy and Plans

Carnegie is returning to its pure focus on wave energy and is now pursuing a revised business strategy focusing on:

- i. undertaking concentrated research and development activities to optimise the CETO Unit design, by applying machine learning (artificial intelligence), new low-cost electrical generators, optimised system configuration and modern hydrodynamic approaches;
- ii. within the next 18 months, constructing a complete virtual prototype CETO Unit incorporating the design improvements detailed below;
- iii. over the next two years, pursuing a partnership with an OEM or other commercial partners to contribute funding and expertise to decrease the costs of producing CETO Units to a competitive level and increase market opportunities in the long term;
- iv. in the next two to three years, identify and engage with utility scale partners to construct and/or utilise CETO Units on a commercial scale; and
- v. ultimately generating shareholder value through royalty or license agreements in respect to the CETO Technology.

CETO Development

Building upon the significant intellectual property accrued to date, Carnegie will continue to pursue the development of the CETO Technology along the following streams:

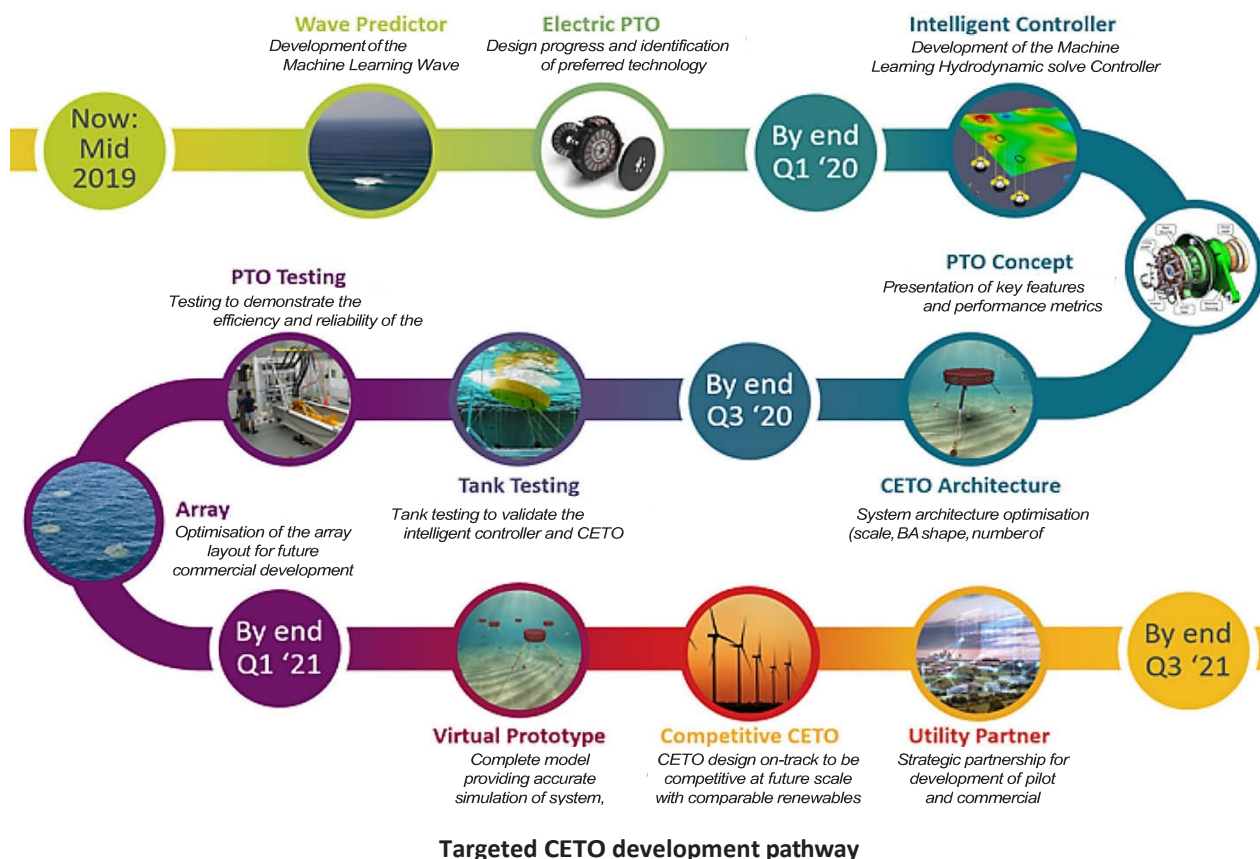
- a) improvement in yield and reduction of costs using artificial intelligence and, more specifically, machine learning techniques;
- b) electrification of the PTO generation system and enhancement of the associated rotary translation system, which converts the linear motion of the buoy into rotary motion suitable for an electrical generator;
- c) enhancement of the computational models and linking them into a complete virtual prototype whereby the full system can be near-realistically simulated under most, if not all scenarios;
- d) electric PTO subsystem testing and wave tank testing of the technology;
- e) seek partnerships with industry participants, capable of improving efficiencies in key components such as the foundation and mooring systems; and
- f) collaboration with a development partner or technology licensee to prepare the next deployment site, probably either in Australia or in Europe, to demonstrate the new generation of the CETO Unit.

Carnegie will seek to further develop some innovations that recently became more tangible. These include the use of machine learning (a subset of artificial intelligence), advanced electrical generators derived from the electric vehicle sector and adaptive hydrodynamic techniques. The Company will seek to integrate these innovations into the CETO Technology with an aim to reducing

project and technology costs and increasing power production - to achieve the benefits of reducing the capital demands of a demonstration project and creating a more competitive product. The latter part is critical to ensure the CETO Unit has the potential to follow the deployment rates of the successful offshore wind industry that has more than 22,000 MW of deployed capacity and deployed approximately 5,000 MW in 2018. Within the next 18 months, Carnegie seeks to deliver an improved CETO 6 Unit design, integrating these innovations and demonstrating performance improvement.

Within the next two years, Carnegie intends to pursue a partnership with a large OEM to contribute funding and expertise to decrease the costs of producing CETO Units to a competitive level and increase market opportunities in the long term. Carnegie aims to mitigate the capital demands on Carnegie with respect to the development and commercialisation of the CETO Technology through such partnerships.

In the medium to long term and subject to the delivery of the virtual CETO prototype, Carnegie will seek to derive value from CETO Technology by entering into license fee or royalty arrangements in respect of the CETO Technology. Carnegie will also seek out partners to construct and/or utilise CETO Units on a commercial scale.



Carnegie will also continue to seek relationships with key industry participants who have assisted in the CETO Technology development. The Company will seek to utilise collaboration alliances with CSIRO / Pawsey, University of Western Australia, Enel Green Power and the University of Edinburgh to assist in the development of the CETO Technology. Carnegie has continued collaborating with Enel Green Power since the end of the Financial Year and will seek to further strengthen its collaboration with Enel over the coming year. Enel Green Power has demonstrated a keen interest in the wave energy sector and are likely to have a significant role to play in the industry in the coming years. Additionally, Carnegie has been consulting to various marine energy proponents and will continue to seek to develop this potential income stream.

“Stable, predictable and always available: marine energy has enormous potential distributed evenly around the world. Enel Green Power continues to explore the marine energy sector in search of effective, competitive and scalable technologies to transform tides and waves into sustainable energy”

- Antonio Cammiseca, CEO of Enel Green Power

Garden Island Microgrid (GIMG)

Carnegie will also continue operating the Garden Island Microgrid with an aim to provide power sales revenue and strengthen the value of the asset. Electricity and water supply agreements with the DoD are in place to allow the sale of power and water from the solar-battery and desalination systems owned by Carnegie. GIMG retains the facility to connect future wave energy device output and facilitate the sale of the power generated.

To strengthen the asset value and maximise profit, Carnegie will pursue extension of the relevant supply agreements, reduction in operation and maintenance costs, and optimisation of the operation of the battery system.

Other Assets

Carnegie retains offshore lease areas and infrastructure off Garden Island (the site of the previous Perth Wave Energy Project) and Carnegie's corporate office and research facility in North Fremantle. Carnegie will continue to maintain these sites for both its own testing and development purposes as well as for collaborations with industry partners who are seeking to test and demonstrate either relevant enabling technologies or other wave energy converters.

Corporate Governance

Carnegie Clean Energy Limited is a wave energy technology development company. The Company has established procedures to encourage and maintain a culture of good corporate governance. The Board is responsible for establishing the Company's corporate governance framework, the key features of which are set out in this report. In establishing its corporate governance framework, the Board has referred to the 4th edition of the ASX Corporate Governance Councils' Corporate Governance Principles and Recommendations which come into effect for the financial year ended 30 June 2021. However, the Company has chosen to adopt the 4th Edition of Corporate Governance Policies and Procedures early.

The corporate governance statement set out in this report discloses the extent to which the Company is following the recommendations as at the date of this report. The Company follows each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices do not follow a recommendation, the Board has explained its reasons for not following the recommendation and disclosed what, if any, alternative practices the Company will adopt instead of those in the recommendation. Unless otherwise stated, the practices detailed in this statement have been in place for the entire reporting period ended 30 June 2019.

Governance-related documents can be found on the Company's website at www.carnegiece.com, under the menu "About Us - Corporate Information" and within the section marked "Corporate Governance".

Compliance with Corporate Governance Principles and Recommendations

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1

The listing entity should disclose:

- (a) the respective roles and responsibilities of its board and management; and*
- (b) those matters expressly reserved to the board and those delegated to management.*

The Company complies with this recommendation. A policy on matters reserved for the Board is outlined in the "Matters Reserved for Board Approval" document and is available on the Company's website. The Company has established clear details of the roles and responsibilities of each of its board management members.

Recommendation 1.2

A listed entity should:

- (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and*

- (b) *provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.*

The Company complies with this recommendation. The Company has a policy for the evaluation of the Board and Senior Executives in accordance with the Board and Senior Executives Evaluation Policy. The appointment of any director is subject to subsequent approval by shareholders at the next Annual General Meeting of the Company. Meeting materials for such meeting incorporates all relevant details to assist shareholders in deciding whether or not to elect or re-elect that director.

Recommendation 1.3

A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.

The Company complies with this recommendation. Prior to the formal appointment of any director, a written agreement is entered into between the Company and the director setting out the terms and conditions of their appointment.

Recommendation 1.4

The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

The Company complies with this recommendation.

Recommendation 1.5

A listed entity should:

- (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;*
- (b) disclose that policy or a summary of it; and*
- (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either;*
- (d) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or*
- (e) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under the Act.*

The Company does not comply with this recommendation. The Company has not yet set measurable objectives for achieving diversity. The Board continues to monitor diversity across the organisation and is satisfied with the current level of gender diversity within the Company. Due to the size of the Company, the Board does not consider it appropriate at this time to formally set objectives for gender diversity. The Company currently employs (including on a consulting basis) 11 staff (3 females and 8 males). The Company recognises that a diverse and talented workforce is a competitive advantage and that the Company's success is the result of the quality and skills of our people. The Company's policy on diversity is to employ the right person for the right job regardless of their gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability.

Recommendation 1.6

A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and*
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

The Company complies with this recommendation. A detailed review of the performance of each director is undertaken subsequent to the end of the financial year by the Chairman and with the assistance of an independent consultant and confirmed

in the Annual Report. Results from the assessment are then considered by independent consultant and a report provided back to the Board for consideration with recommendations for implementation.

Recommendation 1.7

A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of its senior executives; and
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Company complies with this recommendation. On an annual basis the Company undertakes a review of the senior executives which is confirmed in the Annual Report.

Principle 2: Structure the board to add value

Recommendation 2.1

The board of a listed entity should:

- (a) have a nomination committee which:
 - (1) has at least three members, a majority of whom are independent directors; and
 - (2) is chaired by an independent director; and disclose:
 - (3) the charter of the committee;
 - (4) the members of the committee; and
 - (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

The Company complies with this recommendation. A Nomination Committee has been established with members being Michael Fitzpatrick (Chairman), Grant Mooney and Terry Stinson has since been appointed to the Committee. It is anticipated that Terry Stinson will step down from the Committee and be replaced by proposed director Anthony Shields.

Recommendation 2.2

A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

The Company complies with this recommendation. The Board has undertaken an assessment of its mix of skills using a skills matrix to assess strengths and identify weaknesses. A summary of the blend of skills is set out below:

| Expertise | Industry | Qualifications |
|---|--|---|
| <ul style="list-style-type: none"> ▪ Renewable energy ▪ Infrastructure ▪ Industrial & manufacturing ▪ Engineering ▪ Minerals & Mining ▪ Capital Markets ▪ Research & Development | <ul style="list-style-type: none"> ▪ Renewable energy ▪ Power & electricity ▪ Capital markets ▪ Mineral exploration and mining ▪ Technology and R&D ▪ Construction ▪ Infrastructure | <ul style="list-style-type: none"> ▪ Business & accounting ▪ Engineering ▪ Management ▪ Science |

The skills, experience and expertise of each of the Company's directors are set out in the Directors' Report.

Recommendation 2.3

A listed entity should disclose:

- (c) *the names of the directors considered by the board to be independent directors;*
- (d) *if a director has an interest, position, association or relationship of the type described in Box 2.3 of the 3rd edition of the ASX Corporate Governance Councils' Corporate Governance Principles and Recommendations but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and*
- (e) *the length of service of each director.*

The Company complies with this recommendation. Non-Executive Directors Terry Stinson and Grant Mooney are considered Independent Directors. The length of service of each Director is set out in this report. Director Mike Fitzpatrick and proposed director Anthony Shields may be considered not independent due to their Convertible Note and substantial shareholdings in the Company at completion of the Offer.

Recommendation 2.4

A majority of the board of a listed entity should be independent directors.

The Company does not comply with this recommendation. Only 50% of the Board of Directors are considered to be independent (Grant Mooney and Terry Stinson). It is the view of the Directors that the involvement of key stakeholders at Board level such as Anthony Shields and Mike Fitzpatrick is in the best interests of Shareholders given their commitment to the Company through the process of administration and their corporate and industry experience.

Recommendation 2.5

The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.

The Company complies with this recommendation.

Recommendation 2.6

A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors efficiently.

The Company complies with this recommendation. The Company has established a process for induction of new directors and where possible, provides each director with opportunities for professional development such that they can improve their effectiveness as directors of the Company.

Principle 3: Instil a culture of acting lawfully, ethically and responsibly

Recommendation 3.1

A listed entity should articulate and disclose its values.

The Company complies with this recommendation. The Company has established a code of conduct and a code of ethics which are available on the Company's website.

Recommendation 3.2

A listed entity should:

- (a) *have and disclose a code of conduct for its directors, senior executives and employees; and*
- (b) *ensure that the board or a committee of the board is informed of any material breaches of that that code.*

The Company complies with this recommendation. The Company has established a code of conduct for all directors, senior executives and employees which is actively monitored by the Board for performance against it and which is available on the Company's website.

Recommendation 3.3

A listed entity should:

- (a) *have and disclose whistleblower policy; and*

(b) ensure that the board or a committee of the board is informed of any material incidents reported under that policy.

The Company does not comply with this recommendation as the Board doesn't believe it is of such a size to justify such a policy and that such matters contrary to the code of Conduct and Ethics can be raised directly with the Board of Directors.

Recommendation 3.4

A listed entity should:

(a) have and disclose an anti-bribery and corruption policy; and

(b) ensure that the board or a committee of the board is informed of any material incidents reported under that policy.

The Company complies with this recommendation.

Principle 4: Safeguard integrity in corporate reports

Recommendation 4.1

The board of a listed entity should:

(a) have an audit committee which:

(1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and

(2) is chaired by an independent director, who is not the chair of the board, and disclose:

(3) the charter of the committee;

(4) the relevant qualifications and experience of the members of the committee; and

(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

(6) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.

The Company complies with this recommendation. The Company has policies for Audit Committee Charter and the External Auditor Selection. A copy of these policies are provided on the Company's website. Details of the audit committee meetings are provided in this report.

Recommendation 4.2

The board of the listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The Company complies with this recommendation. The Board receives assurance from the Chief Executive Officer and the Chief Financial Officer and/or the Company Secretary that the declaration in relation to section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. The Company also has a separate policy in relation to Risk Management which is available on the Company's website.

Recommendation 4.3

A listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor.

The Company complies with this recommendation. Any such periodic corporate report that is not audited shall disclose details of whether or not and to what extent any independent audit has taken place.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1

A listed entity should:

- (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and*
- (b) disclose that policy or a summary of it.*

The Company complies with this recommendation. The Company has a Continuous Disclosure policy which is set out on the Company's website.

Recommendation 5.2

A listed entity that gives a new substantive investor or analyst presentation should release a copy of the presentation materials on the ASX Market Announcements Platform ahead of the presentation.

The Company complies with this recommendation.

Recommendation 5.3

A listed entity should ensure that its board receives copies of all material market announcements promptly after they have been made.

The Company complies with this recommendation.

Principle 6: Respect the rights of security holders

Recommendation 6.1

A listed entity should provide information about itself and its governance to investors via its website.

The Company complies with this recommendation. A summary of the Company's Corporate Governance policies is set on the Company's website.

Recommendation 6.2

A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.

The Company complies with this recommendation. The Company has established an investor relations program to ensure effective communications between the Company and shareholders and investors. The Company has a Shareholder Communication Policy which is set out on the Company website.

Recommendation 6.3

A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

The Company complies with this recommendation. The Company has a Shareholder Communication Policy which is set out on the Company website.

Recommendation 6.4

A listed entity should ensure that all substantive resolutions at a meeting of security holders are decided by a poll rather than by a show of hands.

The Company complies with this recommendation.

Recommendation 6.5

A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.

The Company complies with this recommendation. The Company provides the option to shareholders to receive communications electronically, notification of this option is provided by the Company registry.

Principle 7: Recognise and manage risk

Recommendation 7.1

The board of a listed entity should:

(a) have a committee or committees to oversee risk, each of which:

(1) has at least three members, a majority of whom are independent directors; and

(2) is chaired by an independent director;

And disclose:

(3) the charter of the committee;

(4) the members of the committee; and

(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.

The Company complies with this recommendation.

The Company has an Audit Committee which, pursuant to its charter has the responsibility for:

- monitoring corporate risk assessment and the internal controls instituted.
- monitoring the establishment of an appropriate internal control framework, including information systems, and considering enhancements.
- reviewing external audit programs/reports to ensure that where deficiencies in controls or procedures have been identified, appropriate remedial action is taken by management.

In addition, the Company's Board of Directors actively manage risk by addressing risks associated with the Company's business operations regularly during board meetings and at intervals where any such risk is raised by management.

Recommendation 7.2

The board or a committee of the board should:

(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and

(b) disclose, in relation to each reporting period, whether such a review has taken place.

The Company does not comply with this recommendation as no separate review was undertaken during the year. However, The Board met regularly throughout the year and considered risks as well as any risks that were raised independently by the Audit Committee. During the year, the Board of Directors met regularly and actively monitored the financial position of the Company to ensure it remained in a position of solvency at all times leading up to the appointment of Administrators.

Recommendation 7.3

A listed entity should disclose:

(a) if it has an internal audit function, how the function is structured and what role it performs; or

(b) if it does not have an internal audit function, that fact and the processes it employs for evaluation and continually improving the effectiveness of its risk management and internal control processes.

The Company does not comply with this recommendation. The Directors are of the view that given the size of the Company, it is not practical to have an internal audit function and that risk management is undertaken by the Board and senior management.

Recommendation 7.4

A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

The Company does not comply with this recommendation. The Directors are of the view that given the Company's size, risks are addressed directly by the Board, senior management and Audit Committee and are not disclosed externally.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1

The board of a listed entity should:

(a) have a remuneration committee which:

(1) has at least three members, a majority of whom are independent directors; and

(2) is chaired by an independent director;

and disclose

(3) the charter of the committee;

(4) the members of the committee; and

(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

The Company complies with this recommendation. The Company has a Remuneration Committee and policies for the Remuneration Committee Charter, the Senior Executives Remuneration and Non-Executive Director remuneration. A copy of these policies are provided on the Company's website.

Recommendation 8.2

A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

The Company complies with this recommendation. The Company has separate policies relating to the remuneration of non-executive directors as opposed to senior executives. These policies provide a basis for distinguishing the type of remuneration which is suitable for the two classes.

Recommendation 8.3

A listed entity which has an equity-based remuneration scheme should:

(c) have a policy on whether participants are permitted to enter into transaction (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and

(d) disclose that policy or a summary of it.

The Company complies with this recommendation. The Company has a Securities Trading Policy which, among other things, sets out the Company's policy on trading the Company's securities. A copy of this policy is on the Company's website.

**CARNEGIE CLEAN ENERGY LIMITED
(SUBJECT TO DEED OF COMPANY
ARRANGEMENT,
ADMINISTRATORS APPOINTED)
ABN 69 009 237 736
AND CONTROLLED ENTITIES**

**FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2019**

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**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
ADMINISTRATORS APPOINTED)**

ABN 69 009 237 736

AND CONTROLLED ENTITIES

DIRECTORS' REPORT

30 JUNE 2019

The Directors present their report on Carnegie Clean Energy Limited, Subject to Deed of Company Arrangement, Administrators appointed ("the Company", or "Carnegie") and its controlled entities, ("the Consolidated Group", or "Group") for the financial year ended 30 June 2019.

DIRECTORS

The Directors of the Company in office at any time during or since the end of the financial year are:

Terry Stinson *B.Bus Admin (Magnum Cum Laude) (Chairman) – appointed 15 November 2017*

Mr Stinson has over 30 years of executive leadership experience with innovation companies globally. He was formerly the Chief Executive Officer and Managing Director of Orbital Corporation Ltd. He was previously also a Vice President and General Manager at Siemens AG responsible for overseeing an international business across multiple sites, over 1,200 staff and delivering sales in excess of US \$300m p.a. Mr Stinson was also previously CEO and MD at Synerject, VP Manufacturing OMC, Director Advanced R&D Product and Process Mercury Marine, division of Brunswick Corp, Project Engineer LT-5 Corvette engine, USA SME 1990 Young Engineer of the Year, and leadership positions supporting various international ventures with Yamaha, Honda, Chrysler, Penske and others. Mr Stinson is a non-executive director of Orbital and is also non-executive chair of Talga Resources Ltd since 9 February 2017.

Michael Fitzpatrick *B.Eng (Hons), B.A (Hons), M.A (Oxon) (Non-Executive Director) – appointed 28 November 2012*

Mr Fitzpatrick has over 40 years in the financial services sector. He is past Chairman of the Pacific Current Group (formerly Treasury Group Limited) as well as the Australian Football League. He also holds several non-executive directorships, including Infrastructure Capital Group and Latam Autos Limited.

In 1994 Mr Fitzpatrick founded Hastings Funds Management Ltd ('Hastings'), the pioneering infrastructure asset management company where he was Managing Director until he sold his interest in 2005. Hastings was then one of the largest managers of infrastructure and alternative assets in Australia (including infrastructure, high yield debt, private equity and timberland) managing investments of approximately A\$3.8 billion. Mr Fitzpatrick was a director of several Hastings' managed investments, including Pacific Hydro Limited, Global Renewables Limited, Utilities of Australia, Australian Infrastructure Fund and Australia Development Group Pty Ltd (the holding company of Perth Airport).

Mr Fitzpatrick is a former chairman of Victorian Funds Management Corporation, and the Australian Sports Commission, a former director of Rio Tinto Limited and Rio Tinto plc, a former member of the Melbourne Park Tennis Centre Trust, a former director of the Carlton Football Club and a former director of the Walter & Eliza Hall Institute of Medical Research.

Mr Fitzpatrick has a Bachelor of Engineering with Honours from the University of Western Australia and a Bachelor of Arts with Honours and a Masters of Arts from Oxford University where he was the 1975 Rhodes Scholar from Western Australia.

Grant Jonathan Mooney *B.Bus, CA (Non-executive Director and Company Secretary) – appointed 19 February 2008* Mr Mooney is the principal of Perth-based corporate advisory firm Mooney & Partners, specialising in corporate compliance administration to public companies. Mr Mooney has gained extensive experience in the areas of corporate and project management since commencing Mooney & Partners in 1999. His experience extends to advice on capital raisings, mergers and acquisitions and corporate governance. Currently, Mr Mooney serves as a Director to several ASX listed companies across a variety of industries including technology and resources. He is a Director of Gibb River Diamonds Limited, appointed 14 October 2008, Barra Resources Limited, appointed 29 November 2002, Accelerate Resources Limited, appointed 1 July 2017, Talga Resources Limited, appointed 20 February 2014 and Riedel Resources Limited appointed 31 October 2018. Mr Mooney is also a member of Chartered Accountants in Australia and New Zealand.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
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ABN 69 009 237 736

AND CONTROLLED ENTITIES

DIRECTORS' REPORT

30 JUNE 2019

Mark Woodall – resigned 30 November 2018

Mr Woodall has been a leader in the development and financing of renewable energy and clean technologies for nearly 25 years. He founded and led two specialist investment banking firms focused on the low carbon economy: Impax Capital (1994) and Climate Change Capital (2002). He has been the adviser, investor or principal in over 90 clean technology transactions with total capital deployed of over US\$4.5 billion.

Michael Edward Ottaviano (*Chief Executive Officer and Managing Director*) – resigned effective 30 September 2018

Dr Ottaviano has been responsible for the leadership of the company and oversight of all aspects of the business management including the commercialisation of the CETO wave power and the Energy Made Clean business activities. Dr Ottaviano has previously worked in research and development and consulted in technology and innovation management. He has advised companies on new product development, intellectual property and technology commercialisation across various industries and ranging from start-ups to large multi-nationals.

He is a former Board Member of the Clean Energy Council, Australia's clean energy peak industry group, was a member of the Australian Government's Energy White Paper Consultative Committee and a non-executive director of ASX-listed hearing technology start up, Nuheara Limited (resigned 4 July 2018). He is currently a director of Western Australia's Film and TV funding development organisation Screenwest. Dr Ottaviano has a Bachelor of Engineering, a Masters of Science and a Doctorate in Business Administration.

At the date of this report, the direct and indirect interests of the Directors in the shares and options of the Company were:

| | ORDINARY SHARES | OPTIONS |
|---|--------------------|---------|
| Terry Stinson | - | - |
| Michael Fitzpatrick (i) | 125,365,359 | - |
| Grant Jonathan Mooney (ii) | 2,628,278 | - |
| Michael Edward Ottaviano (resigned 30 September 2018) (iii) | - | - |
| Mark Woodall (resigned 30 November 2018) | - | - |

- i. Mr M Fitzpatrick is a Director of Log Creek Pty Ltd and therefore is deemed to have an interest in 125,365,359 ordinary shares held by Log Creek Pty Ltd <88 Green Ventures A/C>. In addition, Log Creek Pty Ltd <88 Green Ventures A/C> holds 100 convertible notes with a face value of \$1,000,000 convertible into shares at 4.0c (refer to note 16(ii)).
- ii. Mr G J Mooney is a Director of Mooney & Partners Pty Ltd and therefore is deemed to have an interest in 2,628,278 ordinary shares held by Mooney & Partners Pty Ltd of which he is a director and shareholder.
- iii. Michael Ottaviano resigned on 30 September 2018 and held 35,000,000 shares which, subsequent to his departure were returned to the Company's treasury pursuant to the existing Management Incentive Equity Plan. At the time of issue on 25 November 2013, these shares had a value of \$871,471.

COMPANY SECRETARY

Mr Grant Jonathan Mooney held the position of company secretary at the end of the financial year.

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Group during the year were the development of the CETO Wave Energy Technology and the development of the Energy Made Clean solar, battery and microgrid business. Following the appointment of Administrators on 14 March 2019, the Company returned its focus to the development of the CETO Wave Energy Technology.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
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AND CONTROLLED ENTITIES

**DIRECTORS' REPORT
30 JUNE 2019**

OPERATING RESULTS

The consolidated loss of the Consolidated Group for the financial year ended 30 June 2019 was \$51,930,513 (2018: consolidated loss \$63,349,694).

DIVIDENDS

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2019. No dividends were paid during the financial year.

REVIEW OF OPERATIONS

During the year, the Consolidated Group took significant steps to advance and restructure its business including:

CETO Wave Energy Technology

- Carnegie achieved its first milestone under the €1 million Enel Green Power Collaboration Agreement and received the associated milestone payment on 2 January 2019.
- Carnegie continued to progress the development of the CETO 6 technology, including advancing major innovation opportunities which have potential to improve the performance of CETO through greater energy capture, more efficient conversion into electricity, higher system reliability, and reduction in cost.
- In October, Carnegie received a \$2.625 million milestone payment from the WA State Government as part of a variation to the first \$5.25 million AWEPP project milestone. The Company was requested to provide a plan to WA State Government concerning its ability to fund the balance of the project expenditures. The funding plan was submitted subsequent to 31 December 2018. On 12 March 2019, the State Government of Western Australia terminated the Albany Funding Agreement.
- Garden Island Microgrid was completed. Commissioning occurred subsequent to the end of the financial year.
- The Company adopted a less capital-intensive digital development approach that will seek to leverage on advances in machine learning (a subset of artificial intelligence) and computational power. Leveraging advancing and accepted computational design tools, the Company going forward would utilise the acquired knowledge of its staff and seek to build a digital prototype of an improved, more competitive CETO Unit. Carnegie's revised approach would seek to integrate elements of machine learning, advanced electrical machines and advanced hydrodynamics into the prototype, with an aim of bringing the CETO Unit power production costs down the cost curve far more rapidly than incremental in-sea deployments. Carnegie will seek to validate the prototype by small scale testing in order to accurately demonstrate the performance, behaviour and cost of the full-scale design and thereby providing the Company with sufficient evidence to present a business case to existing collaborators and/or new partners.

Energy Made Clean (EMC)

- The Northam Solar Farm commenced exporting power to the grid and received Approval to Operate from Western Power. In addition, the solar and battery microgrid at the Delamere Air Weapons Range in the Northern Territory of Australia achieved Practical Completion. The Company sold a further 38.7% interest in the project to partner Indigenous Business Australia (IBA) retaining a remaining 11.3% interest in the project. The remaining interest was sold post year end.
- Carnegie and Tag Pacific Limited (Tag) terminated the Sale and Purchase Agreement executed in June 2018 for the sale of EMC.
- On 14 March 2019 EMC was placed into voluntary administration. After holding meetings with creditors, the Administrators are taking steps to liquidate EMC.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
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**DIRECTORS' REPORT
30 JUNE 2019**

Corporate

- On 28 September 2018, Mr Jonathan Fievez was appointed as the Chief Executive Officer of Carnegie following the resignation of Dr Michael Ottaviano as Managing Director.
- Non-Executive Director Mr Mark Woodall retired as a Director of Carnegie at the Annual General Meeting on 30 November 2018.
- In November 2018, Carnegie implemented a \$2 million unsecured finance facility to provide funding for operations. The facility has been provided by HFM Investments Pty Ltd, a company controlled by director Mr Michael Fitzpatrick. Prior to the Company entering administration, \$1.15 million was drawn on the facility.
- On 14 March 2019, the Directors placed the Company and its subsidiaries EMC Co Pty Ltd, Energy Made Clean Pty Ltd and EMC Engineering Australia Pty Ltd into voluntary administration.
- On 17 March 2019, a Funding Agreement was entered into with Mooney & Partners Pty Ltd and Asymmetric Credit Partners Pty Ltd (Funding Parties) to facilitate a recapitalisation of the Company by providing funding of \$500,000 to meet costs during the recapitalisation process.
- On 17 April 2019, creditors unanimously accepted a restructuring plan to recapitalise the Company and relist on the Australian Securities Exchange. The plan, outlined in a Deed of Company Arrangement (DoCA), provided for a recapitalisation of the Company, a restructure of its statement of financial position and a readmission to quotation on the ASX following a capital raising.
- On 15 May 2019, the Administrators announced that Carnegie executed the DoCA with the Funding Parties. This followed the unanimous creditor support received for the DoCA at a meeting of creditors held on 17 April 2019.
- The DoCA (once complete) extinguishes certain pre-administration creditor claims and converts a proportion of Carnegie's debt to equity, with a portion of residual debt being restructured and carrying over to the recapitalised Carnegie in the form of new convertible notes maturing in 2021.
- Pursuant to the DoCA, Carnegie would lodge a prospectus to complete a capital raising of not less than \$5 million. Of the funds raised, up to \$1.4 million is to be contributed towards the DoCA for the costs of the administration, priority (employee) creditors in full (100c/\$) and Participating Creditors up to 10c/\$. Upon completion of the DoCA, Mr Anthony Shields would join the board as a Non-Executive Director.
- On 26 June 2019 the Company announced the change of auditors from Crowe Horwarth to HLB Mann Judd.

FINANCIAL POSITION

The net assets of the Consolidated Group decreased by \$51.84 million from \$61.23 million to \$9.39 million as at 30 June 2019. This is predominantly the result of a \$37.9 million impairment of the CETO and Garden Island Microgrid assets and \$8.95 million write-off of Energy Made Clean Pty Ltd and related subsidiaries and related assets, and an increase in short term borrowings of \$1.65 million.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The following significant changes in the state of affairs of the Consolidated Group occurred during the financial year:

- The Company was placed into Administration together with its subsidiary company Energy Made Clean Pty Ltd and associated subsidiaries. As a result, the Company remained in Administration (subject to a Deed of Company Arrangement) at the end of the Financial Year.

DIRECTORS' REPORT
30 JUNE 2019

SIGNIFICANT EVENTS SUBSEQUENT TO YEAR END

The following events occurred subsequent to the end of the financial year:

1. Convertible Note Facility Agreements

On 22 October 2019, the Company entered into two convertible note facility agreements (**Convertible Note Facility Agreements**) with the following parties:

- i. HFM Investments Pty Ltd (**HFM**) to the value of \$1.15 million; and
- ii. existing noteholders holding convertible notes to the value of \$4.5 million (**CCE Noteholders**).

Utilisation under the Convertible Note Facility Agreements is subject to satisfaction of conditions precedent.

A summary of the material terms of the Convertible Note Facility Agreements is as follows:

- a) HFM and CCE Noteholders subscribe for the 2021 Notes to the value of \$2,850,000. The commitment amount will be utilised in satisfaction of 50% of the debt owing to HFM and the CCE Noteholders;
- b) each 2021 Note will have a face value of A\$25,000;
- c) each 2021 Note will convert into Shares at \$0.00125 per Share, with each Share being issued with one free attaching Option exercisable at \$0.0015 per Option, expiring three years from the date of issue (with both the Shares and Options being subject to voluntary escrow for six months from the date of issue);
- d) the Company shall repay the 2021 Notes on 31 March 2021 (**Repayment Date**);
- e) the Company must pay interest on the 2021 Notes at a rate of 8% per annum (**Coupon Rate**), with an issue price of the greater of \$0.001 or the 90 day VWAP calculated prior to the relevant interest payment date, being the date that is one year from the date of issue of the 2021 Notes, each of 31 March, 30 June, 30 September and 31 December thereafter and on 31 March 2021 (**Interest Payment Dates**);
- f) the Lenders may elect to convert all or part of the 2021 Notes and the accrued interest to Shares any time between one year after the 2021 Notes are issued and prior to the Repayment Date, by providing notice to the Company; and
- g) if at any time after the date of the Convertible Note Facility Agreements there occurs any reconstruction of the issued capital of the Company then the entitlement of the Lenders to convert the 2021 Notes and any amount of interest owing, then unconverted, shall be reconstructed in a manner that is consistent with the ASX Listing Rules and in the same proportion and manner as any reconstruction of the issued capital of the issue.

2. General Security Agreement

On 22 October 2019, pursuant to the terms of the DOCA, the Company entered into a General Security Agreement (GSA). Under the terms of the GSA:

- (a) the Lenders, being the CCE Noteholders and HFM will be granted a security interest over all present and after acquired property of the Company; and
- (b) the Company will utilise its best endeavours to seek consent from the DoD to obtain a valid charge over the Garden Island Microgrid.

The GSA will be granted over all of the assets and undertakings of the Company, save that the security over the GIMG asset will only apply following grant of the consent of the Department of DoD but at all times apply to any proceeds from the GIMG asset.

**DIRECTORS' REPORT
30 JUNE 2019**

3. Entitlement Issue

On 31 July 2019, the Company lodged a prospectus with ASIC to facilitate the recapitalisation of the Company as contemplated under the DoCA . The following offers were made under the prospectus:

- i. a non-renounceable pro rata entitlement offer of four (4) New Shares for every one (1) Share held by Eligible Shareholders at an issue price of \$0.001 per New Share to raise a minimum of \$5,500,000 (before costs) and a maximum of approximately \$11,525,810 (before costs);
- ii. An offer of 500,000,000 New Shares together with 500,000,000 free attaching New Options to the Proponents (and/or their nominees) to the DOCA, being Asymmetric Credit Partners Pty Ltd (a company associated to proposed director Anthony Shields) and Mooney & Partners Pty Ltd (a company associated with director Grant Mooney); and
- iii. An offer of 113 Convertible Notes (2021 Notes) each with a face value of \$25,000 to the CCE Noteholders and HFM (and/or their nominees).
- iv. The Offer closed on 18 September 2019 and on 23 September 2019 the Company announced to ASX that it had raised the required \$5.5 million to meet the minimum subscription level and was working towards meeting the remaining conditions in order to have its securities reinstated to quotation on ASX.

4. General Meeting of Shareholders

At the Company's General Meeting of Shareholders held on 30 August 2019 all resolutions were passed to proceed with current Entitlement Offer and Recapitalisation Proposal.

5. Garden Island Microgrid

On 23 August 2019, the Company announced that the Garden Island Microgrid (GIMG) had commenced operations following approval from the Department of Defence. With approvals in place from Department of Defence and Western Power (received in late June), Carnegie had officially powered up the system and commenced producing clean renewable energy for HMAS Stirling, Australia's largest naval base. Carnegie subsequently announced on 12 September 2019 that it had submitted its first invoice for the sale of power to Department of Defence.

With the exception of the above, no other matters or circumstances not otherwise dealt with in this report or the consolidated financial statements, have arisen since the end of the financial year which significantly affected, or may significantly affect, the operations of the Consolidated Group, the results of those operations or the state of affairs of the Consolidated Group in subsequent financial years.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The 2019 financial year saw the Company placed into Administration together with its subsidiary company Energy Made Clean Pty Ltd (EMC) and associated subsidiaries. As a result, the Company remained in Administration at the end of the Financial Year. The Company is currently undergoing a recapitalisation by way of a DoCA whereby the Company will remove the loss making business of EMC and associated subsidiaries and seek reinstatement to quotation on ASX and return its focus to development and commercialisation of its leading CETO wave energy technology.

ENVIRONMENTAL ISSUES

The Consolidated Group is required to carry out its activities in accordance with the laws and regulations in the areas in which it undertakes its activities. There have been no known significant breaches of these laws and regulations.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
ADMINISTRATORS APPOINTED)**

ABN 69 009 237 736

AND CONTROLLED ENTITIES

**DIRECTORS' REPORT
30 JUNE 2019**

SHARE OPTIONS

At the date of this report, there were:

- 10,000,000 options outstanding in respect of unissued ordinary shares to the current Chief Executive Officer, exercisable at 1.6 cent per share on or before 10 October 2021 and
- 35,000,000 options outstanding in respect of unissued ordinary shares exercisable at 6 cents per share on or before 8 February 2023.

INDEMNIFYING OFFICERS

During or since the year end, the Company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

- The Company has paid premiums to insure the Directors against certain risks they are exposed to as Directors of the Company; and
- The Company has agreed to grant Directors a right of access to certain Company Records.

The Company has paid premiums to insure each Director against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of a Director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The amount of the premiums was \$93,389.

REMUNERATION REPORT - AUDITED

This report details the nature and amount of remuneration for each Director of Carnegie Clean Energy Limited and other Key Management Personnel (KMP) being the Chief Executive Officer.

REMUNERATION POLICY

The remuneration policy of Carnegie Clean Energy Limited has been designed to align KMP objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Consolidated Group's financial results. The Board of Carnegie Clean Energy Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best KMP to run and manage the Consolidated Group, as well as create goal congruence between KMP and shareholders.

The Board's policy for determining the nature and amount of remuneration for KMP of the Consolidated Group is as follows:

The remuneration policy, setting the terms and conditions for the Executive Directors and other senior executives, was developed by the Remuneration Committee after seeking professional advice from independent external consultants. The Company's Remuneration Committee benchmarks the Company's salaries payable to senior management by reference to independent industry data to ensure that the Company is consistent with prevailing market conditions. All executives receive a base annual salary (which is based on factors such as length of service and experience). The Remuneration Committee, in consultation with the Board of Directors, has chosen to adopt an equity-based approach to remunerating executive staff and employees. The Company utilised the Employee Share Option Plan as adopted by shareholders in November 2010 (most recently re-affirmed by shareholders in November 2016) as the mechanism by which options may be issued to executive management and staff to adequately incentivise these individuals.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
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**DIRECTORS' REPORT
30 JUNE 2019**

REMUNERATION REPORT – AUDITED (CONTINUED)

The Remuneration Committee reviews executive packages annually by reference to the Consolidated Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries and then considers the justification of any salary review or participation in the Employee Share Option Plan.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the past year's growth in shareholders' value over the financial year and by contrast with its peers and industry sector. All incentives must be linked to predetermined performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

The Board policy is to remunerate non-executive Directors at market rates for time, commitment and responsibilities. The Executive Directors determine payments to the non-executive Directors and review their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. No remuneration consultants were used during the year. The maximum aggregate fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive Directors are not linked to the performance of the Consolidated Group.

Company Performance, Shareholder Wealth and KMP Remuneration

| | 2015 | 2016 | 2017 | 2018 | 2019* |
|-------------------------|-------------|-------------|--------------|--------------|--------------|
| | \$ | \$ | \$ | \$ | \$ |
| Revenue | 1,716,516 | 1,729,797 | 4,845,575 | 10,045,707 | 534,034 |
| Net loss after tax | (4,784,050) | (6,349,387) | (14,382,638) | (63,349,694) | (51,930,513) |
| Share price at year end | 0.045 | 0.030 | 0.057 | 0.024 | 0.0* |

* The Company was in suspension on the ASX at year end, so no share price was quoted.

The remuneration for each KMP of the Consolidated Group paid during the year was as follows:

Details of Remuneration for Year Ended 30 June 2019

| | Actual rewards received in the period | | | | Total | Other long term benefits | Share based payments | % of Remuneration Performance Based |
|----------------------------|---------------------------------------|-------------------|----------------------------------|------------|-------|--------------------------|----------------------|-------------------------------------|
| | Short-term benefits | | Post Employment Benefits - Super | | | | | |
| | Cash salary, leave paid and fees | Non Cash Benefits | | | | | | |
| Terry Stinson | \$ 83,077 | \$ - | \$ 7,892 | \$ 90,969 | \$ - | \$ - | - | |
| Mark Woodall* | \$ 37,433 | \$ - | \$ 2,416 | \$ 39,849 | \$ - | \$ - | - | |
| Michael Fitzpatrick | \$ 39,808 | \$ - | \$ 3,782 | \$ 43,590 | \$ - | \$ - | - | |
| Michael Ottaviano | \$ 396,604 | \$ - | \$ 20,531 | \$ 417,135 | \$ - | \$ - | - | |
| Grant Mooney*** | \$ 74,808 | \$ - | \$ 3,782 | \$ 78,590 | \$ - | \$ - | - | |
| Jonathan Fievez | \$ 239,383 | \$ - | \$ 22,285 | \$ 261,668 | \$ - | \$ 10,000 | 3.80% | |
| Total | \$ 871,113 | \$ - | \$ 60,688 | \$ 931,801 | \$ - | \$ 10,000 | 1.07% | |

* Mark Woodall's remuneration includes consultancy fees of \$12,000 paid to Tallarook Ltd, a company associated with Mark Woodall.

*** Fees include company secretarial fees of \$35,000 paid to Mooney & Partners Pty Ltd for company secretarial services, a company associated with Grant Mooney.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
ADMINISTRATORS APPOINTED)**

ABN 69 009 237 736

AND CONTROLLED ENTITIES

DIRECTORS' REPORT

30 JUNE 2019

REMUNERATION REPORT – AUDITED (CONTINUED)

Options Issued as Part of Remuneration for the Year Ended 30 June 2019

10,000,000 options were issued to Chief Executive Officer Jonathan Fievez during the year. The options have an exercise price of \$0.016 per share and expire on 10 October 2021.

Details of Remuneration for Year Ended 30 June 2018

| | Actual rewards received in the period | | | | Other long term benefits | Share based payments | % of Remuneration Performance Based |
|---------------------|---------------------------------------|-------------------|----------------------------------|--------------------|--------------------------|----------------------|-------------------------------------|
| | Short-term benefits | | Post Employment Benefits - Super | Total | | | |
| | Cash salary, leave paid and fees | Non Cash Benefits | | | | | |
| Jeffrey Harding | \$ 43,576 | \$ - | \$ 4,139 | \$ 47,715 | \$ - | \$ - | - |
| Terry Stinson | \$ 69,231 | \$ - | \$ 6,928 | \$ 76,158 | \$ - | \$ - | - |
| Mark Woodall* | \$ 88,942 | \$ - | \$ 3,320 | \$ 92,262 | \$ - | \$ - | - |
| Michael Fitzpatrick | \$ 57,500 | \$ - | \$ 5,462 | \$ 62,962 | \$ - | \$ - | - |
| Michael Ottaviano | \$ 588,005 | \$ 33,444 | \$ 20,048 | \$ 641,497 | \$ 6,576 | \$ - | 1.03% |
| John Davidson** | \$ 730,698 | \$ 18,582 | \$ 20,937 | \$ 770,217 | \$ - | \$ - | - |
| John Leggate | \$ 46,834 | \$ - | \$ - | \$ 46,834 | \$ - | \$ - | - |
| Grant Mooney*** | \$ 120,500 | \$ - | \$ 5,462 | \$ 125,962 | \$ - | \$ - | - |
| Kieran O'Brien@ | \$ 112,961 | \$ - | \$ - | \$ 112,961 | \$ - | \$ - | - |
| Greg Allen | \$ 270,171 | \$ - | \$ 20,059 | \$ 290,230 | \$ - | \$ - | - |
| Total | \$2,128,418 | \$ 52,026 | \$ 86,355 | \$2,266,799 | \$ 6,576 | \$ - | 0.29% |

* Mark Woodall's remuneration includes consultancy fees paid to Tallarook Ltd, a company associated with Mark Woodall.

** John Davidson's remuneration includes \$378,000 in redundancy payments.

*** Fees include company secretarial fees paid to Mooney & Partners Pty Ltd, a company associated with Grant Mooney.

@ Kieran O'Brien's remuneration includes consultancy fees paid to Utility Advisory Services Pte Ltd, a company associated with Kieran O'Brien.

Employment Contracts of KMP

The employment conditions of KMP are formalised in Service Contracts.

The Company has entered into an executive services agreement with Mr Jonathan Fievez on 27 September 2018 in respect of his employment as the CEO of the Company. The principal terms of the executive services agreement are as follows:

- (i) Mr Fievez receives a base salary of \$250,000 per annum, excluding mandatory superannuation contributions;
- (ii) a cash bonus of up to 30% of the annual gross salary may be payable annually at the discretion of the Directors.
- (iii) the issue of 10 million options, exercisable at 1.6 cents per share on or before 10 October 2021. On 10 October 2018 these were issued;
- (iv) express provisions protecting the Company's confidential information and intellectual property;
- (v) Mr Fievez may terminate the agreement by giving 3 months' notice in writing to the Company; and
- (vi) the Company may terminate the agreement (without cause) by giving Mr Fievez 3 months' notice in writing (or make payment in lieu of notice), unless the Company is terminating as a result of serious misconduct (or other similar grounds) by Mr Fievez, in which case no notice is required.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
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AND CONTROLLED ENTITIES

DIRECTORS' REPORT

30 JUNE 2019

REMUNERATION REPORT – AUDITED (CONTINUED)

The Company has entered into deeds of variation to non-executive director appointment letters with each of Messrs Terry Stinson, Mike Fitzpatrick and Grant Mooney and a non-executive director appointment letter with proposed director Mr Anthony Shields. Messrs Fitzpatrick, Mooney and Shields will each receive an annual remuneration of \$40,000 (exclusive of mandatory superannuation contributions and GST) while Mr Stinson (Chairman) shall receive \$60,000 per annum (exclusive of mandatory superannuation contributions and GST). The changes to the remuneration of the existing Directors will take effect on and from effectuation of the DOCA.

Their appointment shall cease if:

- (a) the non-executive Director resigns;
- (b) at the close of any general meeting of Shareholders at which a resolution of their re-election is not approved; and
- (c) the non-executive Director is removed as a director in accordance with the Corporations Act or the Constitution.

The Company has entered into an agreement for the provision of Company secretarial services by Mooney & Partners Pty Ltd, a company associated with director Mr Grant Mooney. The agreement provides for the provision of Company Secretarial Services to the Company for \$48,000 per annum plus statutory superannuation. Both Mr Mooney and the Company can terminate the agreement by giving 3 months' notice to either party.

Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time. Termination payments are in accordance with the Corporations Act 2001.

Options and Rights Holdings

Movement in equity settled options held by KMP is detailed below:

| | Balance 30 June 2018 | Granted as Compensation | Options expired unexercised | Net Change Other | Balance 30 June 2019 |
|---------------------|---------------------------------|------------------------------------|--|-----------------------------|---------------------------------|
| Michael Fitzpatrick | 5,000,000 | - | 5,000,000 | - | - |
| Grant Mooney | 15,000,000 | - | 15,000,000 | - | - |
| Jonathan Fievez | - | 10,000,000 | - | - | 10,000,000 |
| Total | 20,000,000 | 10,000,000 | 20,000,000 | - | 10,000,000 |

Details of equity settled options for KMP outstanding at balance date are as follows:

| KMP | Vested No. | Granted No. | Grant Date | Value per Option at Grant Date | Terms & Conditions for Each Grant | | |
|-----------------|-------------------|--------------------|-------------------|---|--|------------------------------------|-----------------------------------|
| | | | | | Exercise Price | First Exercise Date | Last Exercise Date |
| Jonathan Fievez | 10,000,000 | 10,000,000 | 25 Nov 2018 | 0.10 cent | 1.6 cents | 10 Oct 2018 | 10 Oct 2021 |

All options were granted for nil consideration.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
ADMINISTRATORS APPOINTED)**

ABN 69 009 237 736

AND CONTROLLED ENTITIES

**DIRECTORS' REPORT
30 JUNE 2019**

REMUNERATION REPORT – AUDITED (CONTINUED)

Shareholdings

Number of Shares held by KMP

| | Balance 30 June 2018 | Received as Compensation | Options Exercised | Net Change Other | Balance 30 June 2109 |
|---------------------|---------------------------------|-------------------------------------|------------------------------|-----------------------------|---------------------------------|
| Michael Fitzpatrick | 125,365,359 | - | - | - | 125,365,359 |
| Grant Mooney | 2,628,278 | - | - | - | 2,628,278 |
| Jonathan Fievez | - | - | - | - | - |
| Michael Ottaviano* | 35,000,000 | - | - | (35,000,000) | - |
| Total | 162,993,637 | - | - | (35,000,000) | 127,993,637 |

* Upon cessation of employment, these shares have been returned to the Company in accordance with the provisions of the Management Incentive Equity Scheme and Mortgage charge.

DIRECTORS' MEETINGS

There were 22 Directors' meetings held during the financial year ended 30 June 2019. Attendances were as follows:

| Director | Directors | | Audit Committee | |
|---|-----------------------|---|-----------------------|---|
| | No. Meetings attended | No. Meetings held during time in office | No. Meetings attended | No. Meetings held during time in office |
| Terry Stinson | 22 | 22 | N/A | N/A |
| Grant Mooney | 22 | 22 | 3 | 3 |
| Michael Fitzpatrick | 20 | 22 | 3 | 3 |
| Michael Ottaviano (Resigned 30 September 2018) | 9 | 9 | N/A | N/A |
| Mark Woodall (Resigned 30 November 2018) | 14 | 15 | 2 | 2 |

There were also 5 circular resolutions passed by the Board of Directors during the financial year.

END OF REMUNERATION REPORT

NON-AUDIT SERVICES

Neither the current or previous external auditors were engaged for non-audit services during the financial year ended 30 June 2019.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
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AND CONTROLLED ENTITIES

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2019 has been received and can be found on page 15.

Signed on 25 October 2019 in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'Grant Mooney'. The signature is stylized with large loops and a trailing flourish.

GRANT J. MOONEY
Director

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Carnegie Clean Energy Limited (Subject To Deed Of Company Arrangement, Administrators Appointed) for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

Perth, Western Australia
25 October 2019



N G Neill
Partner

hl**b.com.au**

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

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Liability limited by a scheme approved under Professional Standards Legislation.

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**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
ADMINISTRATORS APPOINTED)**

ABN 69 009 237 736

AND CONTROLLED ENTITIES

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE
INCOME FOR YEAR ENDED 30 JUNE 2019**

| Continuing Operations: | Note | Consolidated Group | |
|---|-------------|---------------------------|---------------------|
| | | 2019 | 2018 |
| | | \$ | \$ |
| Revenue | | | |
| Sales revenue | 2 | 534,034 | 94,942 |
| Net loss on derivatives not designated as hedging instruments | 31 | - | (8,300) |
| Net gain on financial instruments at fair value through profit and loss | | - | 428,669 |
| Net research and development grant received | | - | 378,067 |
| Other income | 2 | 22,316 | 810,306 |
| | | <u>556,350</u> | <u>1,703,684</u> |
| Cost of Goods Sold | | | |
| Cost of sales - solar, battery energy storage systems, & microgrids | | (176,298) | - |
| | | <u>380,052</u> | <u>1,703,684</u> |
| Gross Profit | | | |
| Expenses | | | |
| Bad and doubtful debts | | (41,310) | (4,651) |
| Consultancy expenses | | (263,082) | (467,237) |
| Company secretarial expenses | | (35,000) | (63,000) |
| Depreciation and amortisation expense | 3 | (250,991) | (117,784) |
| Employee and Directors expenses | | (2,479,505) | (3,074,877) |
| Employee Share based payments | 5 | (10,000) | (3,352) |
| Fair value of additional shares and options issued | 16 | - | (1,783,158) |
| Finance costs | | - | (1,019,617) |
| Impairment costs | 12,13(a) | (38,284,415) | (31,310,570) |
| Occupancy expense | | (452,083) | (570,046) |
| Research expenses | | (178,174) | (79,380) |
| Write-off of intangibles (other than goodwill) | 13(b) | - | (3,623,698) |
| Administrative expenses | | (1,519,716) | (1,327,075) |
| Interest expense | | (232,081) | - |
| Other expenses from ordinary activities | | - | (4,319) |
| Loss before income tax | | <u>(43,366,305)</u> | <u>(41,745,080)</u> |
| Income tax benefit/(expense) | 4 | - | - |
| Loss after tax from continuing operations | | <u>(43,366,305)</u> | <u>(41,745,080)</u> |
| Loss from discontinued operations | 30 | (8,564,208) | (21,604,614) |
| Loss after tax from continuing and discontinuing operations | | <u>(51,930,513)</u> | <u>(63,349,694)</u> |
| Other comprehensive income | | | |
| Exchange differences on translating overseas controlled entities and foreign currencies | | 85,971 | (43,358) |
| Income tax relating to components of other comprehensive income | | - | - |
| Total comprehensive loss for the year | | <u>(51,844,542)</u> | <u>(63,393,052)</u> |

CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
ADMINISTRATORS APPOINTED)

ABN 69 009 237 736

AND CONTROLLED ENTITIES

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE
INCOME FOR YEAR ENDED 30 JUNE 2019 (CONTINUED)**

| | Not e | Consolidated Group | |
|--|----------|---------------------|---------------------|
| | | 2019 \$ | 2018 \$ |
| Loss attributable to: | | | |
| Members of the parent entity | | <u>(51,930,513)</u> | <u>(63,349,694)</u> |
| Total comprehensive loss attributable to: | | | |
| Members of the parent entity | | <u>(51,844,542)</u> | <u>(63,393,052)</u> |
| Earnings per share from continuing operations | | | |
| Basic loss per share (cents per share) | 7 | <u>(1.51)</u> | <u>(1.56)</u> |
| Diluted loss per share (cents per share) | 7 | <u>(1.51)</u> | <u>(1.56)</u> |
| Earnings per share from discontinued operations | | | |
| Basic loss per share (cents per share) | 7 | <u>(0.30)</u> | <u>(0.81)</u> |
| Diluted loss per share (cents per share) | 7 | <u>(0.30)</u> | <u>(0.81)</u> |

The accompanying notes form part of these financial statements.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
ADMINISTRATORS APPOINTED)**

ABN 69 009 237 736

AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

| | Note | Consolidated Group | |
|--------------------------------------|-------------|---------------------------|-------------------|
| | | 2019 | 2018 |
| | | \$ | \$ |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 8 | 255,606 | 8,436,530 |
| Trade and other receivables | 9 | 713,291 | 5,012,448 |
| Inventories | 29 | - | 464,937 |
| Derivative assets | 31 | - | 9,750 |
| Assets held for sale | 32 | 200,868 | - |
| TOTAL CURRENT ASSETS | | 1,169,765 | 13,923,665 |
| NON-CURRENT ASSETS | | | |
| Trade and other receivables | 9 | 1,945,306 | 778,835 |
| Other financial assets | 10 | 12,414 | 12,414 |
| Property, plant and equipment | 12 | 2,675,949 | 14,443,068 |
| Intangibles | 13 | 15,000,000 | 49,900,000 |
| TOTAL NON-CURRENT ASSETS | | 19,633,669 | 65,134,317 |
| TOTAL ASSETS | | 20,803,434 | 79,057,982 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 14 | 5,253,825 | 7,383,500 |
| Short-term provisions | 15 | 69,329 | 991,764 |
| Short-term borrowings | 16 | 6,039,987 | 722,827 |
| TOTAL CURRENT LIABILITIES | | 11,363,141 | 9,098,091 |
| NON-CURRENT LIABILITIES | | | |
| Trade and other payables | 14 | - | 64,576 |
| Derivatives | 30 | - | 18,050 |
| Long-term provisions | 15 | 49,484 | 564,867 |
| Long-term borrowings | 16 | - | 8,087,047 |
| TOTAL NON-CURRENT LIABILITIES | | 49,484 | 8,734,540 |
| TOTAL LIABILITIES | | 11,412,625 | 17,832,631 |
| NET ASSETS | | 9,390,809 | 61,225,351 |
| EQUITY | | | |
| Issued capital | 17 | 194,460,984 | 194,460,984 |
| Reserves | 18 | 900,268 | 4,574,255 |
| Accumulated losses | | (185,970,443) | (137,809,888) |
| TOTAL EQUITY | | 9,390,809 | 61,225,351 |

The accompanying notes form part of these financial statements.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
ADMINISTRATORS APPOINTED)**

ABN 69 009 237 736

AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 30 JUNE 2019

| Consolidated Group | Issued Capital | Accumulated Losses | Foreign Currency Reserve | Convertible Note/Option Reserve | Total |
|--|---------------------------|-------------------------------|---|--|-------------------|
| Balance at 01 July 2017 | 185,212,910 | (75,199,473) | 7,655 | 2,905,885 | 112,926,977 |
| Comprehensive loss | | | | | |
| Loss for the year | - | (63,349,694) | - | - | (63,349,694) |
| Other comprehensive income | - | - | (43,358) | - | (43,358) |
| Total comprehensive loss for the year | - | (63,349,694) | (43,358) | - | (63,393,052) |
| Transactions with owners | | | | | |
| Share capital issued during the year | 9,527,443 | - | - | - | 9,527,443 |
| Capital raising costs | (279,369) | - | - | - | (279,369) |
| Equity portion of convertible notes | - | - | - | 1,600,000 | 1,600,000 |
| Transfer of equity portion of convertible note on exercise | - | - | - | 840,000 | 840,000 |
| Share based payment expense | - | - | - | 3,352 | 3,352 |
| Transfer of expired share-based payments | - | 739,279 | - | (739,279) | - |
| Total transactions with owners | 9,248,074 | 739,279 | - | 1,704,073 | 11,691,426 |
| Balance at 30 June 2018 | 194,460,984 | (137,809,888) | (35,703) | 4,609,958 | 61,225,351 |
| Balance at 01 July 2018 | 194,460,984 | (137,809,888) | (35,703) | 4,609,958 | 61,225,351 |
| Comprehensive loss | | | | | |
| Loss for the year | - | (51,930,513) | - | - | (51,590,513) |
| Other comprehensive income | - | - | 85,971 | - | 85,971 |
| Total comprehensive loss for the year | - | (51,930,513) | 85,971 | - | (51,844,542) |
| Transactions with owners | | | | | |
| Options issued during the year | - | - | - | 10,000 | 10,000 |
| Transfer expired options | - | 2,169,958 | - | (2,169,958) | - |
| Transfer lapsed notes | - | 1,600,000 | - | (1,600,000) | - |
| Total transactions with owners | - | 3,769,958 | - | (3,759,958) | 10,000 |
| Balance at 30 June 2019 | 194,460,984 | (185,970,443) | 50,268 | 850,000 | 9,390,809 |

The accompanying notes form part of these financial statements.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
ADMINISTRATORS APPOINTED)**

ABN 69 009 237 736

AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR ENDED 30 JUNE 2019

| | Note | Consolidated Group | |
|--|------|-----------------------|-------------------------|
| | | 2019 | 2018 |
| | | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 4,839,045 | 14,607,765 |
| Interest received | | 27,468 | 130,067 |
| Interest paid | | (236,652) | (502,048) |
| Payments to suppliers and employees | | (14,057,910) | (25,783,089) |
| Receipts from R&D Tax Rebate | | 2,157,137 | 2,648,408 |
| Receipts from Government grant funding | | 2,887,500 | 1,704,913 |
| Net cash used in by operating activities | 23 | <u>(4,383,412)</u> | <u>(7,193,984)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Payments for development of asset | | (1,669,148) | (2,013,183) |
| Purchase of property, plant and equipment | | (79,714) | (9,509,006) |
| Proceeds from sale of property, plant and equipment | | 4,709 | 760,741 |
| Net proceeds from acquisition of subsidiaries | | - | 807,274 |
| Net cash (used in) investing activities | | <u>(1,744,153)</u> | <u>(9,954,174)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net proceeds from issue of shares (net of costs) | | - | 5,004,916 |
| Net proceeds from issue of convertible notes | | 1,650,000 | - |
| Net proceeds from borrowings | | 600,000 | 4,423,305 |
| Repayment of borrowings | | (1,400,000) | - |
| Loss of control of subsidiaries – cash no longer available | | (2,903,359) | - |
| Net cash (used in)/provided by financing activities | | <u>(2,053,359)</u> | <u>9,428,221</u> |
| Net (decrease)/increase in cash held | | (8,180,924) | (7,719,937) |
| Cash and cash equivalents at beginning of financial year | | 8,436,530 | 16,202,143 |
| Effect of exchange rate fluctuations on cash held | | - | (45,676) |
| Cash and cash equivalents at end of financial year | 8 | <u><u>255,606</u></u> | <u><u>8,436,530</u></u> |

The accompanying notes form part of these financial statements.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
ADMINISTRATORS APPOINTED)**

ABN 69 009 237 736

AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Carnegie Clean Energy Limited ("the Company") is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the twelve months ended 30 June 2019 comprise the Company and its subsidiaries ("the Group"). The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement in with the investee; and
- has the ability to its power to affect its returns.

The Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements listed above

The separate financial statements of the Company, Carnegie Clean Energy Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*. The Group is a 'for profit' entity for financial reporting purposes under Australian Accounting Standards.

The consolidated financial statements were authorised for issue by the Board of Directors on 25 October 2019.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (AASB), adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

New and amended accounting standards and interpretations

The Group has adopted all new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Consolidated Group.

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

Going concern

The consolidated financial statements have been prepared on a going concern basis which contemplates the realisation of assets and the settlement of liabilities in the normal course of business.

The Company is currently under administration following the appointment of administrators Korda Mentha on 14 March 2019. The Company has entered into a Deed of Company Arrangement (DoCA) which provides for a recapitalisation of the Company and a reinstatement of trading of the Company's securities on ASX, subject to a number of conditions being met including the raising a minimum of \$5.5 million in cash to fund the business pursuant to the prospectus dated 31 July 2019. On 23 September 2019, the Company announced it had raised the required funds of \$5.5 million and was working towards meeting the remaining conditions as set out by ASX and the DoCA such that the DoCA can be effectuated in the near term.

At the date of execution of the Financial Report, the Directors were confident that the remaining outstanding terms would be met and that the DoCA would be effectuated in the near term allowing the Company to exit the administration process and be reinstated to ASX.

If the DoCA is not effectuated, there exists circumstances that gives rise to a material uncertainty that may cast doubt whether the Company can realise its assets and extinguishing of its liabilities in the ordinary course of business as it would likely to proceed into liquidation.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
ADMINISTRATORS APPOINTED)**

ABN 69 009 237 736

AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint Operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. The Consolidated Group has recognised its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate classifications.

Accounting Policies

Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Carnegie Clean Energy Limited at the end of the reporting period. A controlled entity is any entity over which Carnegie Clean Energy Limited has the power to direct the activities of the entity and is exposed to, or has rights to, variable returns from its involvement. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 11 to the financial statements. During the year some group entities were deconsolidated as control was lost at the date of administration for entities that are currently in the process of liquidation.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the Consolidated Group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax (continued)

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Carnegie Clean Energy Limited has not formed a tax consolidated group with its Australian wholly owned subsidiaries. As such each entity is responsible for accounting for its own current and deferred tax amounts. Any unused tax losses and unused tax credits are therefore quarantined at each entity and are unavailable to the remainder of the Group.

Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Consolidated Group include the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including capitalised lease assets is depreciated on a straight-line basis over their useful lives to the Consolidated Group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable asset are:

| <i>Class of Fixed Asset</i> | <i>Depreciation Rate</i> |
|-----------------------------|--------------------------|
| Plant and equipment | 1.0% – 50.0% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Statement of Financial Position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, is transferred to entities in the consolidated group are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Financial Instruments

Applicable to 30 June 2019

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- equity instruments at fair value through other comprehensive income (FVOCI)
- debt instruments at fair value through other comprehensive income (FVOCI).

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

Applicable to 30 June 2018

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Amortised cost is calculated as:

- a. The amount at which the financial asset or financial liability is measured at initial recognition;
- b. Less principal repayments;
- c. Plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- d. Less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries or associates as being subject to the requirements of accounting standards specifically applicable to financial instruments.

i. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

ii. *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor determinable payments.

iii. *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

iv. *Derivatives not designated as hedging instruments*

Forward sale contracts for large scale generation certificates are recognised when the entity becomes a party to the contractual provisions to the instrument. The Group has not designated these hedging instruments and recognises the fair value gain or loss on these instruments at each balance date through the statement of profit or loss.

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments (continued)

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The fair value measurement of forward sales contracts is based on the presumption that the transaction to sell the large-scale generation certificates takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. Where appropriate 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.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a financial liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the application of the effective interest method is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option. Where the conversion option meets the definition of equity, it is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

Finance Costs

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 bank overdrafts;
- interest on short-term and long-term borrowings; and
- interest on finance leases.

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Impairment of Assets including Goodwill

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries or associates. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed immediately in the profit or loss unless the asset is carried at a re-valued amount in accordance with another accounting standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for intangible assets with indefinite lives, including for goodwill.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit ("CGU") or group of CGUs to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible Asset – Acquired Intellectual Property and Development Costs

An intangible asset arising from externally acquired intellectual property and development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of acquired intellectual property and the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

The carrying value of an intangible asset arising from acquired intellectual property and development expenditure is tested for impairment annually when the asset is not yet available for use or has an indefinite life, or more frequently when an indication of impairment arises during the reporting period.

Acquired intellectual property and development cost in respect of an asset available for use that has a finite life is amortised over the asset's useful life.

The amortisation rates used for each class of intangible asset are:

| <i>Class of Intangible Asset</i> | <i>Useful Life</i> |
|--|--------------------|
| Microgrid/battery technology development asset | 7 years |

Foreign Currency

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transaction and balances

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred to equity as a qualifying cash flow or net investment hedge.

Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

The cost of cash-settled transactions is initially and at each reporting date until it is vested, determined by applying the Black-Scholes option pricing model, considering the terms and conditions on which the benefit was granted, and to the extent to which employees have rendered service to date. The cumulative cost recognised until settlement is a liability and the periodic determination of this liability is as follows:

At each reporting date between grant and settlement, the fair value of the benefit is determined

During the vesting period, the liability recognised at each reporting date is the fair value of the benefit at that date multiplied by the expired portion of the vesting period;

From the end of the vesting period until settlement, the liability recognised is the full fair value of the liability at the reporting date; and

All changes in the liability are recognised in profit or loss for the period.

For shares acquired under limited recourse loans, the Group is required to recognise within the income statement a remuneration expense measured at the fair value of the shares inherent in the issue to the eligible person, with a corresponding increase to a share-based payments reserve in equity. The fair value is measured at grant date and recognised when the eligible person becomes unconditionally entitled to the shares, effectively on grant. A loan receivable is not recognised.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result, and that outflow can be reliably measured.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks.

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Other Income

Applicable to 30 June 2019

In the current year, the Group has applied AASB 15 Revenue from Contracts with Customers which is effective for an annual period that begins on or after 1 July 2018. AASB 15 introduced a 5-step approach to revenue recognition.

To determine whether to recognise revenue, the Group follows a 5-step process:

- 1) Identifying the contract with a customer
- 2) Identifying the performance obligations
- 3) Determining the transaction price
- 4) Allocating the transaction price to the performance obligations, and
- 5) Recognising revenue when/as performance obligation(s) are satisfied.

The revenue and profits recognised in any period are based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

In determining the amount of revenue and profits to record, and related statement of financial position items (such as contract fulfilment assets, capitalisation of costs to obtain a contract, trade receivables, accrued income and deferred income) to recognise in the period, management is required to form a number of key judgements and assumptions. This includes an assessment of the costs the Group incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised.

Revenue is recognised either when the performance obligation in the contract has been performed, so 'point in time' recognition or 'over time' as control of the performance obligation is transferred to the customer.

Applicable to 30 June 2018

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks. All revenue is stated net of the amount of goods and services tax (GST).

Revenue from the solar and battery microgrid engineering and construction operation is measured by the percentage of completion based on costs incurred less revenue previously recognised and less provision for foreseeable losses, allocated between amounts due from customers and amounts due to customers. Revenue for variations is recognised when it is probable the variation will be approved by the customer and the amount of revenue can be reliability measured.

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Cost includes variable and fixed costs directly related to specific contracts, costs related to contract activity in general which can be allocated to specific contracts on a reasonable basis and other costs specifically chargeable under the contract. Costs expected to be incurred under penalty clauses and rectification provisions are also included. Costs incurred in securing contracts are included when they can be separately identified and measured reliably, and where it is probable that the contract will be obtained. Amounts received from customers not recognised as revenue are allocated to Trade and Other Payables. Amounts recognised as revenue but not yet billable are recognised as accrued revenue, with amounts billed but not payable until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified are classified as amount on retention.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial asset.

Royalty income is recognised on an accrual basis. Royalty income, when applicable, is received on a quarterly basis and any under or over accrual applicable to previously recognised royalty income is adjusted for based on the receipt of the royalty income entitlement.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial asset.

Royalty income is recognised on an accrual basis. Royalty income, when applicable, is received on a quarterly basis and any under or over accrual applicable to previously recognised royalty income is adjusted for based on the receipt of the royalty income entitlement.

Associates

Associates are entities over which the Consolidated Group 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 Group'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.

When the Consolidated Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the Consolidated Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Consolidated Group discontinues the use of equity accounting upon the loss of significant influence and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the interest in investment and proceeds on disposal is recognised in profit or loss.

Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goods and Services Tax (GST) and Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of GST and VAT, except where the amount of GST and VAT incurred are not recoverable from the Tax Office. In these circumstances the GST and VAT are recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST and VAT.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST and VAT component of investing and financing activities, which are disclosed as operating cash flows.

Government Grants and Research and Development Tax Incentives

Government grants and research and development tax incentives are recognised at fair value where there is reasonable assurance that the grant or tax incentive will be received and all grant or tax incentive conditions will be met. Where grantor tax incentive conditions are not yet fully met, grants or tax incentives will be treated as unearned funding in the balance sheet. Grants or tax incentives relating to expense items are recognised as an offset against these expenses to match the costs they are compensating. Grants or tax incentives relating to items capitalised as assets are recognised as an offset against the asset to match the costs they are compensating.

Earnings/(loss) per share

Basic earnings/(loss) per share is calculated as net profit/(loss) attributable to members of the Consolidated Group, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares on issue throughout the reporting period.

Diluted earnings/(loss) per share is calculated as net profit/(loss) attributable to members of the Consolidated Group, adjusted for, the dilutive effects of any outstanding unlisted options over ordinary shares in the parent.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivatives not designated as hedging instruments

Forward sale contracts for large scale generation certificates are recognised when the entity becomes a party to the contractual provisions to the instrument. The Consolidated Group has not designated these as hedging instruments and recognises the fair value gain or loss on these instruments at each balance date through the statement of profit or loss.

Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the large-scale generation certificates takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Contributed Equity

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.

The effects of adopting AASB 9 are set out below.

(i) Classification and measurement

Under AASB 9, there is a change in the classification and measurement requirements relating to financial assets. Previously, there were four categories of financial assets: loans and receivables, fair value through profit or loss, held to maturity and available for sale. Under AASB 9, financial assets are either classified as amortised cost, fair value through profit or loss or fair value through other comprehensive income.

New Accounting Standards in Application

In the year ended 30 June 2019, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current annual reporting period. The Consolidated Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Consolidated Group, are set out below

AASB 9 Financial Instruments

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied AASB 9 retrospectively, with the initial application date of 1 January 2018 and has adjusted the comparative information for the period beginning 1 July 2017, where necessary. There were no material impacts on the comparative balances other than a change in classification of some receivables.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Assets

The Group has no significant financial assets held at fair value, nor did it have any in the prior period.

Financial Liabilities

The Group has no significant financial liabilities held at fair value through the profit or loss, nor did it have any in the prior period.

(ii) Impairment

The adoption of AASB 9 has changed the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Group to recognise an allowance for ECLs for financial assets not held at fair value through profit or loss.

As all of the Group's trade receivables and other current receivables which the Group measures at amortised cost are short term (i.e. less than 12 months), the change to a forward-looking ECL approach did not have a material impact on the amounts recognised in the financial statements.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer.

New Accounting Standards for Application in Future Periods

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Consolidated Group for the annual reporting period ended 30 June 2019. The Consolidated Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Consolidated Group, are set out below.

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component.

For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group currently has very minimal leases and will have no material impact on future accounts.

Significant accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of development asset

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined.

Annual impairment testing is also carried out for all intangible assets with indefinite useful lives (refer to Note 13).

Useful lives of available for use intangible assets

Acquired intellectual property and development costs in respect of an asset available for use that has a finite life is amortised over the asset's useful life. The Group assesses the useful life based on conditions specific to the Group and to the particular asset, including the expected usage of the asset by the Group, public information on estimates of useful lives of similar assets, and technical and technological obsolescence.

Share based payment transactions

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instrument at the date at which they are granted. The fair value is determined by using the Black Scholes formula taking into consideration the terms and conditions upon which the instruments are granted (refer to Note 27).

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NOTE 2: REVENUE AND OTHER INCOME

The Group derives its sales revenue from the sale of goods and provision of services over time under AASB 15.

| | Notes | Consolidated Group 2019 \$ | 2018 \$ |
|-----------------------------------|-------|----------------------------------|------------|
| <i>Sales revenue</i> | | | |
| Solar, battery and microgrid | | 534,034 | 94,942 |
| <i>Other income</i> | | | |
| Interest income | | 22,316 | 742,855 |
| Other income | | - | - |
| Realised loss on foreign exchange | | - | 67,451 |
| | | 22,316 | 810,306 |

NOTE 3: DEPRECIATION AND AMORTISATION EXPENSE

| | | Consolidated Group 2019 \$ | 2018 \$ |
|--|-------|----------------------------------|------------|
| Depreciation – property, plant and equipment | 13(a) | 250,991 | 117,784 |
| | | 250,991 | 117,784 |

NOTE 4: INCOME TAX EXPENSE

| | | Consolidated Group 2019 \$ | 2018 \$ |
|---|--|----------------------------------|-------------|
| a. The components of tax expense comprise: | | | |
| Current tax expense | | | |
| Current period | | - | - |
| | | - | - |
| Deferred tax expense | | | |
| Origination and reversal of temporary differences | | (1,589,814) | (5,389,800) |
| Movement in deferred tax balances not recognised | | 1,589,814 | 5,389,800 |
| | | - | - |

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NOTE 4: INCOME TAX EXPENSE (CONTINUED)

- b. The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to the income tax as follows:

| | 2019 | 2018 |
|--|--------------|--------------|
| | \$ | \$ |
| — Loss from continuing operations | (43,366,305) | (41,745,080) |
| — Loss from discontinued operations | (8,564,208) | (21,604,615) |
| — Total Loss for the year | (51,930,513) | (63,349,695) |
| — Income tax at 30% (2018: 30%) | (15,579,153) | (19,004,908) |
| Add: | | |
| Tax effect of: | | |
| — Tax rate differential | - | 2,976 |
| — Other non-allowable items | 91,338 | 447,612 |
| — Non-deductible R&D costs | 56,669 | 23,814 |
| — Assessable government grants | 585,226 | - |
| — Impairment | 11,363,366 | 13,140,708 |
| — Gain on deconsolidation | 2,871,798 | - |
| — Share options expensed during year | 3,000 | - |
| — Movement in deferred tax balances not recognised | 607,756 | 5,389,798 |
| | - | - |

The Group has tax losses carried forward of \$51,144,192 (2018: \$60,394,223). The tax losses do not expire under current tax legislation. Deferred tax asset has not been recognised in respect of tax losses carried forward as a formal assessment of the recoverability of the tax losses under the current tax legislation has not been performed.

NOTE 5: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP)

Refer to the Remuneration Report contained in the Report of the Directors for details of the remuneration paid or payable to each member of the Group's KMP for the year ended 30 June 2019.

- a. **Names and positions held in economic and parent entity by KMP in office at any time during the financial year are:**

| <i>Key Management Person</i> | <i>Position</i> |
|------------------------------|--|
| Terry Stinson | Non-Executive Chairman |
| Michael Fitzpatrick | Non-Executive Director |
| Grant J Mooney | Non-Executive Director and Company Secretary |
| Jonathan Fievez | Chief Executive Officer (appointed 28 September 2018) |
| Michael Ottaviano | Managing Director (resigned effective 30 September 2018) |

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NOTE 5: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP)

The totals of remuneration paid to KMP of the Group during the year are as follows:

| | 2019 | 2018 |
|------------------------------|----------------|------------------|
| | \$ | \$ |
| Short term employee benefits | 871,113 | 2,180,444 |
| Share based payments | 10,000 | - |
| Other long-term benefits | - | 6,576 |
| Post-employment benefits | 60,688 | 86,355 |
| | <u>941,801</u> | <u>2,273,375</u> |

NOTE 6: AUDITORS' REMUNERATION

| | Consolidated Group | |
|--|---------------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| • Remuneration of the current auditor of the Group for auditing or reviewing the financial report | - | - |
| • Remuneration of the previous auditor of the Group for auditing or reviewing the financial report | 79,787 | 115,500 |
| | <u>79,787</u> | <u>115,500</u> |

NOTE 7: EARNINGS/(LOSS) PER SHARE

| | Consolidated Group | |
|---|---------------------------|-------------|
| | 2019 | 2018 |
| Basic loss per share (cents per share) from continuing operations | (1.51) | (1.56) |
| Diluted loss per share (cents per share) from continuing operations | (1.51) | (1.56) |
| Basic loss per share (cents per share) from discontinued operations | (0.30) | (0.81) |
| Diluted loss per share (cents per share) from discontinued operations | (0.30) | (0.81) |

| | Consolidated Group | |
|---|---------------------------|--------------|
| | 2019 | 2018 |
| | \$ | \$ |
| (a) Loss used in the calculation of basic and diluted EPS – continuing operations | (43,366,305) | (41,745,080) |
| Loss used in the calculation of basic and diluted EPS – discontinuing operations | (8,564,208) | (21,604,615) |

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NOTE 7: EARNINGS/(LOSS) PER SHARE (CONTINUED)

| | Consolidated Group | |
|---|---------------------------|---------------|
| | 2019 | 2018 |
| (b) Weighted average number of ordinary shares used in calculation of weighted average earnings per share | 2,881,452,450 | 2,683,572,635 |

As at 30 June 2018 and 30 June 2019, the outstanding options were not dilutive as the weighted average exercise price of the options were higher than the weighted average share price for the year.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

NOTE 8: CASH AND CASH EQUIVALENTS

| | Consolidated Group | |
|--------------|---------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Cash on hand | 252 | 428 |
| Cash at bank | 255,354 | 8,436,102 |
| | 255,606 | 8,436,530 |

NOTE 9: TRADE AND OTHER RECEIVABLES

| Consolidated Group | Gross Amount | Past due but not impaired | | | Within trade terms |
|------------------------------------|---------------------|----------------------------------|--------------|------------|---------------------------|
| | | (days overdue) | | | |
| 2019 | \$ | 1-30 | 31-60 | 61+ | \$ |
| | \$ | \$ | \$ | \$ | \$ |
| CURRENT | | | | | |
| Trade receivables | 142,888 | - | - | 14,990 | 127,898 |
| Allowance for expected credit loss | - | - | - | - | - |
| Net trade receivables | 142,888 | - | - | 14,990 | 127,898 |
| Prepayments | 32,399 | | | | 32,399 |
| Other receivables* | 538,004 | - | - | - | 538,004 |
| | 713,291 | - | - | 14,990 | 698,301 |
| NON-CURRENT | | | | | |
| Security deposits | 1,945,306 | - | - | - | 1,945,306 |
| | 1,945,306 | - | - | - | 1,945,306 |

*Other receivables are mainly represented by a GST receivable due to reversed debtors and creditors invoices. As the company is under administration, this balance will be moved to the creditors trust when the Deed of Company Arrangement is completed, as it related to a balance at Administration date.

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NOTE 9: TRADE AND OTHER RECEIVABLES (CONTINUED)

| Consolidated Group | Gross Amount | Past due but not impaired (days overdue) | | | Within trade terms |
|------------------------------------|--------------|---|--------|-----------|-----------------------|
| | | 1-30 | 31-60 | 61+ | |
| 2018 | \$ | \$ | \$ | \$ | \$ |
| CURRENT | | | | | |
| Trade receivables | 753,590 | 25,653 | 40,273 | 175,745 | 511,919 |
| Allowance for expected credit loss | (100,000) | - | - | (100,000) | - |
| Net trade receivables | 653,590 | 25,653 | 40,273 | 75,745 | 511,919 |
| Prepayments | 239,336 | - | - | - | 239,336 |
| Accrued revenue | 887,971 | - | - | - | 887,971 |
| Amount on retention | 323,925 | - | - | - | 323,925 |
| Other receivables | 1,790,285* | - | - | - | 1,790,285 |
| Security deposits | 1,117,339 | - | - | - | 1,117,339 |
| | 5,012,446 | 25,653 | 40,273 | 75,745 | 4,870,775 |
| NON-CURRENT | | | | | |
| Security deposits | 778,835 | - | - | - | 778,835 |
| | 778,835 | - | - | - | 778,835 |

*Includes \$1,415,947 in research and development tax incentives receivable.

NOTE 10: FINANCIAL ASSETS

| | Notes | 2019 \$ | Consolidated Group 2018 \$ |
|--------------------------------------|------------------------------|------------|----------------------------------|
| Financial assets | i | 12,414 | 12,414 |
| i. Financial assets comprise: | | | |
| Unlisted investment, at cost: | | | |
| — | shares in other corporations | 12,414 | 12,414 |

Financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturity date attached to these investments.

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NOTE 11: INTERESTS IN SUBSIDIARIES AND JOINT ARRANGEMENTS

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries and joint arrangements in accordance with the accounting policy described in Note 1:

| | Country of Incorporation | Percentage Owned (%) ⁽ⁱ⁾ | |
|--|--------------------------|-------------------------------------|------|
| | | 2019 | 2018 |
| Carnegie Recreational Watercraft Pty Ltd | Australia | 100 | 100 |
| CETO IP (Australia) Pty Ltd | Australia | 100 | 100 |
| CETO Wave Energy Chile | Chile | 100 | 100 |
| CETO Wave Energy Ireland | Ireland | 100 | 100 |
| CETO Wave Energy UK | United Kingdom | 100 | 100 |
| Clear Energy Pty Ltd (ii) | Australia | 0 | 100 |
| CMA Nominees Pty Ltd | Australia | 100 | 100 |
| EMC Engineering Australia Pty Ltd (ii) | Australia | 0 | 100 |
| EMC Kimberley Pty Ltd (ii) | Australia | 0 | 100 |
| Energy Made Clean Pty Ltd (ii) | Australia | 0 | 100 |
| New Millennium Engineering Pty Ltd | Australia | 100 | 100 |
| Pacific Coastal Wave Energy Corp. | Canada | 0 | 95 |
| Solar Farm Cunderdin Pty Ltd | Australia | 100 | 100 |
| Solar Farm Jurien Bay Pty Ltd | Australia | 100 | 100 |
| Solar Farm Kellerberrin Pty Ltd | Australia | 100 | 100 |
| Solar Farm Moora Pty Ltd | Australia | 100 | 100 |
| Solar Farm Southern Cross Pty Ltd | Australia | 100 | 100 |
| EMC Lendlease Joint Venture (iii) | Australia | 0 | 50 |
| Northam Solar Project (iii) | Australia | 0 | 50 |

- i. Percentage of voting power is in proportion to ownership.
- ii. Loss of control when administrators were appointed 14 March 2019, and subsequently in liquidation
- iii. Accounted for as a joint operation (in prior year)

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

| <i>Plant and equipment:</i> | Consolidated Group | |
|----------------------------------|--------------------|-------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| At cost | 2,841,916 | 16,394,067 |
| Accumulated depreciation | (165,967) | (1,950,999) |
| Total plant and equipment | 2,675,949 | 14,443,068 |

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NOTE 12: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

a. Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

| Consolidated Group: | Plant and Equipment 2019 \$ | Plant and Equipment 2018 \$ |
|--|--|--|
| Balance at the beginning of year | 14,443,068 | 6,501,304 |
| Additions | 79,714 | 8,406,785 |
| Disposals | (196,271) | 14,193 |
| Impairment of Garden Island Microgrid | (4,764,782) | (20,078) |
| Write offs assets no longer held | (195,490) | - |
| Depreciation expense | (56,772) | (455,104) |
| Assets no longer held due to loss of control of subsidiaries | (6,633,518) | - |
| Depreciation capitalised to intangible asset development | - | (4,032) |
| Carrying amount at the end of year | 2,675,949 | 14,443,068 |

NOTE 13: INTANGIBLE ASSETS

Intangible assets can be broken down as follows:

a) Intangibles – CETO technology development asset

| | Consolidated Group | |
|--|---------------------------|--------------------|
| | 2019 \$ | 2018 \$ |
| Initial acquisition cost of CETO Technology – 2009 | 55,989,877 | 55,989,877 |
| Subsequent development expenditure – CETO Technology | 82,445,308 | 81,919,459 |
| Grants and R&D tax incentives received | (54,981,285) | (53,075,069) |
| Impairment | (68,453,900) | (34,934,267) |
| | 15,000,000 | 49,900,000 |
| <i>Movements for year ended 30 June</i> | | |
| Opening Balance | 49,900,000 | 83,041,247 |
| Subsequent development expenditure – CETO Technology | 525,849 | 3,323,625 |
| Other grants received | (1,423,234) | (104,912) |
| R&D tax incentive | (482,982) | (1,425,693) |
| Impairment | (33,519,633) | (34,934,267) |
| Balance as at 30 June | 15,000,000 | 49,900,000 |

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NOTE 13: INTANGIBLE ASSETS (CONTINUED)

The CETO technology has yet to be commercialised and is in the development phase. The cash generating unit which the CETO technology belongs comprises significant other assets at 30 June 2019, which was not the case during the prior year. Accordingly, the approach adopted for this year's valuation has been amended to a relief from royalty methodology (RRM) to value separately the CETO technology. Management has considered the RRM as being the most appropriate methodology to value CETO technology as:

- RRM is a commonly used and widely accepted method for valuing intellectual property (IP),
- A cost based approach can be used as a crosscheck using the costs required to replicate the IP. Whilst Management have details on the historical expenditure incurred in developing and maintaining the IP it is not possible to identify what proportion of the historical expenditure is now obsolete, and
- A market based approach is also rarely applied in the valuation of IP due to a lack of comparable transactions of IP from which valuation metrics can be observed and deduced.

The basic principle of the relief from royalty methodology (RRM) is that if you do not own such intellectual property (IP), you would need to pay to license it from the IP owner. By virtue of owning the asset, the IP owner is 'relieved' from the responsibility of licensing the IP from a third party. The value of that is therefore benchmarked to the hypothetical cost to license such IP from a third party.

The determination of fair value is based on 'fair value' as defined under *AASB 13: Fair Value Measurement*. At 30 June 2019, as the fair value has been estimated to be less than the carrying value of the CETO technology, \$32,436,691 in impairment losses has been recognised as an expense.

Fair value was determined by the Company engaging a suitably qualified independent consultant after the conclusion of the financial year to prepare an independent valuation report. The RRM utilises an estimate of the forecast royalty stream that a hypothetical third party would pay to utilise the IP less the costs of commercialisation.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The calculation of the fair value less cost of disposal is based on the following key assumptions:

- Expected revenue generated from the sale of CETO IP units, based on a minority market share of the world's installed wave energy capacity annually to 2050;
- Remaining useful life of the IP will have a life beyond the remaining patent period as new technology is developed and patented. As such, a 25 years useful life has been assumed;
- A royalty rate range of 3% to 5% with a mid-point of 4% has been applied. To determine a royalty rate range, royalty rates associated with the renewable energy sector were considered and selected. The "profit split" between a licensee and licensor of IP was also considered;
- Management estimates of the cost to Carnegie (net of grants and research & development rebates) to commercialise of \$4 million for 2019 and 2020, \$3 million for 2021 and 2022, and \$1 million for 2023 is required to deploy a first CETO unit in 2020 and to reach full scale commercial operations by 2023;
- A tax rate of 30%;
- The assumed post-tax rate of return of 20% is based on the weighted average cost of capital plus an intangible asset premium of 2%.

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NOTE 13: INTANGIBLE ASSETS (CONTINUED)

| <i>a) Intangibles – Microgrid/battery technology development assets</i> | Consolidated Group | |
|---|---------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Opening balance | - | 4,735,471 |
| Amortisation | - | (1,111,773) |
| Write-off* | - | (3,623,698) |
| | - | - |

* Management have assessed the useful lives of these assets and have concluded that the pattern in which the assets' future economic benefits are expected to be consumed by the Consolidated Group don't correlate to the amortisation rate. Management has therefore assessed the net realisable value of the microgrid/battery technology development assets, relating to intellectual property and know-how developed by the Energy Made Clean Group, as having a nil recoverable value.

a) Intangibles – Goodwill

The carrying amount of goodwill acquired on the acquisition of Energy Made Clean was allocated to the following cash-generating units in the prior year:

| | Consolidated Group | |
|-----------------|---------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Opening Balance | - | 8,868,092 |
| Write-off* | - | (8,868,092) |
| | - | - |

* Management has assessed the net realisable value of the Energy Made Clean related goodwill as having a nil recoverable value and consequently have written-off the assets to nil. This write-off of goodwill is in accordance with the accounting standard requirements regarding the allocation of impairment losses recognised at the cash generating unit level and the hierarchy to which such impairment losses need to be applied.

NOTE 14: TRADE AND OTHER PAYABLES

| | Consolidated Group | |
|--------------------|---------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Trade creditors | | |
| Accruals | 4,151,827 | 3,428,983 |
| Other | - | 2,590,543 |
| | 5,253,825 | 7,383,500 |
| NON-CURRENT | | |
| Other | - | 64,576 |
| | - | 64,576 |

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NOTE 15: PROVISIONS

| Current | 2019 | Consolidated Group | 2018 |
|--|-------------|---------------------------|-------------|
| | \$ | | \$ |
| Annual, Long Service Leave and Other Employee Provisions * | 69,329 | | 661,764 |
| Defect Liability Period Provisions | - | | 330,000 |
| | 69,329 | | 991,764 |
| *Leave provisions have decreased due to the large decrease in staff numbers due to redundancies during the period. | | | |
| Non-current | | | |
| Annual, Long Service Leave and Other Employee Provisions | 49,484 | | 179,751 |
| Make Good Provisions | - | | 385,116 |
| | 49,484 | | 564,867 |
| Annual, Long Service Leave and Other Employee Provisions | | | |
| Opening balance at 1 July | 841,515 | | 1,002,277 |
| (Reduction)/additional provisions | (586,670) | | (160,762) |
| Provisions moved to accruals | (136,037) | | - |
| | 118,813 | | 841,515 |
| Defect Liability Period Provisions | | | |
| Opening balance at 1 July | 330,000 | | - |
| Decrease due to loss of control of subsidiaries | (330,000) | | - |
| Additional provisions | - | | 330,000 |
| | - | | 330,000 |
| Make Good Provisions | | | |
| Opening balance at 1 July | 385,116 | | - |
| Decrease due to loss of control of subsidiaries | (385,116) | | - |
| Additional provisions | - | | 385,116 |
| | - | | 385,116 |
| | 118,813 | | 1,556,631 |

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NOTE 15: PROVISIONS (CONTINUED)

Provision for Long-Term Employee Benefits

A provision has been recognised for employee entitlements relating to long service leave (LSL). In calculating the present value of future cash flows in respect of LSL, the probability of LSL being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 of this report.

Provision for Defect Liability Period

A provision was previously been recognised for defect liability periods (DLP) on work performed. In calculating the present value of future cash flows in respect of DLP, the probability and cost of DLP being taken is based on historical data. Due to the deconsolidation of EMC this amount has been derecognised in the current year.

Provision for Make Good

The Group has an obligation to return the leased land, on which the Northam Solar Farm asset is situated, back to its condition prior to construction commencing at the end of the lease. These costs are currently expected to be incurred in 2043 at the end of the project's life. An estimate of future costs has been determined for the restoration of the land and has been discounted to present value using the Australian 10-year government bond rate. Due to the expected disposal of the Northam Solar Farm, this amount has been derecognised.

NOTE 16: BORROWINGS

a. Convertible notes

| | Consolidated Group | |
|---|---------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Current | | |
| Carnegie convertible notes (ii) | 1,650,000 | - |
| EMC convertible notes (i) | 4,389,987 | - |
| Non-current | | |
| EMC convertible notes (ii) | - | 4,337,047 |
| | 6,039,987 | 4,337,047 |
| Convertible Notes | | |
| Balance at the beginning of the period | 4,337,047 | 7,519,183 |
| Placement of new convertible notes (ii) | 1,650,000 | - |
| Equity component of convertible notes | - | - |
| Conversion to equity during the period | - | (3,300,000) |
| Unwinding of finance costs | 52,940 | 117,864 |
| | 6,039,987 | 4,337,047 |

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NOTE 16: BORROWINGS (CONTINUED)

In October 2017, Carnegie announced that it had entered into a Partnership Agreement with Bookitja Pty Ltd and Indigenous Business Australia (IBA) as co-equity investors in relation to the 10MW Northam Solar Farm Project. As part of this arrangement, Carnegie signed a term sheet for a \$7.5 million construction debt facility for the Northam Solar Farm Project. The facility is provided by Asymmetric Credit Partners Pty Ltd, who were one of the existing convertible note holders. In order to secure the construction debt facility, Carnegie undertook a debt restructure whereby:

- the existing \$2.8 million convertible notes would be wound up and converted at the rate of \$0.038, resulting in the issue of 73,684,211 ordinary Carnegie shares;
- existing convertible note holders would be issued (at no cost) an additional 19,649,123 Carnegie shares within 7 days of signing detailed transaction documentation;
- and existing convertible note holders would be issued a further 35,000,000 unlisted Carnegie options (expiring in 5 years with a fixed exercise price of \$0.06 per share), within 7 days of signing detailed transaction documentation.

The conversion of the existing convertible notes occurred during October 2017, however the issue of the additional Carnegie shares and unlisted options occurred on 8 February 2018. The fair values of these shares and options were calculated at the same date as the existing convertible notes were converted into ordinary shares. The fair values were calculated as follows:

| | |
|---------------------------------------|--------------------|
| Additional Carnegie Shares issued | \$ 943,158 |
| Unlisted options issued | <u>\$ 840,000</u> |
| Amount recognised in Profit/Loss 2018 | <u>\$1,783,158</u> |

i. On 11 January 2017, the Company completed a capital raising of \$5.0 million by issuing 500 unlisted Convertible Notes at an issue price of \$10,000 each. These notes have an 8.0% coupon rate and a 4.0 cents conversion price convertible to equity at any time at the discretion of the note holder. As at the reporting date there are 450 notes on issue which mature on 11 January 2020.

ii. Convertible notes to the value of \$1,650,000 have been issued in lieu of amounts owing to the following parties:

- Two(2) convertible notes to the value of \$250,000 each to the Proponents to the DoCA (the Funding Parties) in satisfaction of the funds provided under the DoCA and which are convertible upon effectuation of the DoCA into 250,000,000 fully paid ordinary shares per Convertible Note with one Attaching Option per share convertible at \$0.00125 per share within 5 years of issue; and
- 46 Convertible Notes to HFM Investments Pty Ltd (Lender) in satisfaction of funds provided by the Lender prior to the appointment of administrators Korda Mentha and which are convertible upon effectuation of the DoCA into 23 March 2021 Notes with a face value of \$25,000 per note and 460,000,000 fully paid ordinary shares and 460,000,000 Attaching Options convertible at \$0.0015 per share within 3 years of issue.

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NOTE 16: BORROWINGS (CONTINUED)

b. Senior loan facility

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

| | Consolidated Group | |
|---|---------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Total facilities | | |
| Post-construction debt refinancing (i) | - | 2,100,000 |
| Revolving R&D debt facility (i) | - | 4,000,000 |
| Project construction debt financing (ii) | - | 3,750,000 |
| | - | 9,850,000 |
| Current | | |
| Revolving R&D debt facility (i) | 722,827 | 800,000 |
| Addition funding drawn down | 600,000 | - |
| Less: Unamortised borrowing costs/unwinding finance costs | 77,173 | (77,173) |
| Repayment of debt facility | (1,400,000) | - |
| | - | 722,827 |
| Non-current | | |
| | Consolidated Group | |
| | 2019 | 2018 |
| | \$ | \$ |
| Project construction debt financing (ii) | - | 3,750,000 |
| Unused at the reporting date | | |
| Post-construction debt refinancing (i) | - | 2,100,000 |
| Revolving R&D debt facility (i) | - | 3,200,000 |
| | - | 5,300,000 |

(i) In March 2018, the Company signed a \$2.1 million project financing facility for the post-construction debt refinancing of the Garden Island Microgrid and an additional \$4.0 million revolving debt facility to support research and development activities with the Commonwealth Bank of Australia. Both facilities were terminated prior to the end of the financial year.

(ii) In accordance with the loan agreement between Asymmetric Credit Partners Pty Ltd and the Consolidated Group, the \$7.5 million facility was assigned to the Northam Solar Project Partners on 18 April 2018. The amounts drawn down at 30 June 2018 represent the Consolidated Group's 50% interest in the Northam Solar Project held at 30 June 2018.

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NOTE 17: ISSUED CAPITAL

| | Consolidated Group | |
|--|---------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| 2,881,452,450 (2018: 2,881,452,450) fully paid ordinary shares | 194,460,984 | 194,460,984 |

Ordinary shares have no par value. There is no limit to the authorised share capital of the Company.

| | 2019 No. | 2018 No. |
|--------------------------------------|---------------------|---------------------|
| a. Ordinary shares number | | |
| At the beginning of reporting period | 2,881,452,450 | 2,599,475,787 |
| Shares issued during the year | | |
| — 9 October 2017 ⁽¹⁾ | - | 73,684,211 |
| — 8 February 2018 ⁽²⁾ | - | 19,649,123 |
| — 16 February 2018 ⁽³⁾ | - | 12,500,000 |
| — 23 May 2018 ⁽⁴⁾ | - | 176,143,332 |
| At reporting date | 2,881,452,450 | 2,881,452,450 |
| | 2019 \$ | 2018 \$ |

| | | |
|--------------------------------------|-------------|-------------|
| b. Ordinary shares \$ | | |
| At the beginning of reporting period | 194,460,984 | 185,212,910 |
| Shares issued during the year | | |
| — 9 October 2017 ⁽¹⁾ | - | 2,800,000 |
| — 8 February 2018 ⁽²⁾ | - | 943,158 |
| — 16 February 2018 ⁽³⁾ | - | 500,000 |
| — 23 May 2018 ⁽⁴⁾ | - | 5,284,300 |
| At reporting date | 194,460,984 | 194,460,984 |

(1) On 9 October 2017, 73,684,211 shares were issued on the conversion of convertible notes. The shares had an effective issue price of \$0.038 per share.

(2) On 8 February 2018 19,649,123 shares were issued as part fees to consultants and financiers. The shares had an effective issue price of \$0.048 per share.

(3) On 16 February 2018, 12,500,000 shares were issued on the conversion of convertible notes. The shares had an effective issue price of \$0.040 per share.

(4) On 23 May 2018, the Company raised \$5,284,300 by issuing 176,143,332 ordinary shares pursuant to a Share Purchase Plan to existing shareholders at an issue price of \$0.030 per share.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 17: ISSUED CAPITAL (CONTINUED)

c. Capital Management

Management controls the capital of the group in order to ensure that the Group can fund its operations and continue as a going concern.

The Group's capital is made up of ordinary share capital.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. This includes the management of share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year except for the appointment of administrators Korda Mentha on 14 March 2019 which remained in place at the end of the financial year.

NOTE 18: RESERVES

| | Consolidated Group | |
|--|---------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| a. Foreign Currency Translation Reserve | | |
| The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries and foreign currencies | 50,268 | (35,703) |
| b. Convertible Note/Option Reserve | | |
| The reserve records items recognised as expenses on valuation of share options and share based payments including loan funded shares. It also records amounts classified as "equity" under the requirements of AASB 132. | 850,000 | 4,609,958 |
| Total | 900,268 | 4,574,255 |

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NOTE 19: CAPITAL AND LEASING COMMITMENTS

| | Consolidated Group | |
|--|---------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Operating and Finance Lease Commitments | | |
| Not later than 1 year | 36,933 | 732,497 |
| Later than 1 year but not later than 5 years | - | 310,855 |
| Later than 5 years | - | 513,683 |
| | 36,933 | 1,557,035 |

| | Consolidated Group | |
|--|---------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Capital Commitments | | |
| Not later than 1 year | - | 2,038,705 |
| Later than 1 year but not later than 5 years | - | - |
| Later than 5 years | - | - |
| | - | 2,038,705 |

NOTE 20: BUSINESS RISK

For the financial year ended 30 June 2019, the Group incurred an operating loss of \$51.9 million (2018: \$63.3 million). As at 30 June 2019, the Group had an accumulated deficit of \$186.0 million. The majority of the accumulated deficit has resulted from costs incurred in the CETO technology development program, impairment of intangible assets, write off of Subsidiary Energy Made Clean Pty Ltd and from associated general and administrative costs.

As the Group continues to develop its proprietary technologies, it expects to have a net decrease in cash from operating activities until it achieves positive cash flow.

The Group cannot say with certainty when it will become profitable because of the uncertainties associated with successfully commercializing a wave energy technology. If existing resources are insufficient to satisfy the liquidity requirements, the Group may seek to sell its solar microgrid asset, additional equity or debt securities or obtain credit facilities. If the Group is unable to obtain required financing, it may be required to reduce the scope of its planned product development and commercialization efforts which could adversely affect its financial position and operating results.

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NOTE 21: OPERATING SEGMENTS

The Group identifies its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is organised into two operating segments:

- Discontinued operations
- Continuing operations

No operating segments have been aggregated to form the above reportable operating segments.

The financial information presented in the statement of comprehensive income and statement of financial position is the same as that presented to the chief operating decision maker. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements. However, financing (including finance costs and finance income), gains and losses on fair value movements through profit and loss, royalties, share of profit and losses of associates, losses on consolidation and disposal of associates, and income taxes are managed on a group basis and are not allocated to operating segments.

Intersegment transactions are on arm's length basis and are eliminated on consolidation. Intersegment loans are initially recognised at the consideration received and earn or incur interest at prevailing market rates. Intersegment loans are eliminated on consolidation.

All amounts reported to the Board of Directors as the chief decision maker are in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

| 2019 | Continuing Operations | Discontinued Operations | Total segments | Adjustments and eliminations | Consolidated |
|--------------------|--------------------------|----------------------------|-------------------|------------------------------------|--------------|
| Revenue | | | | | |
| External customers | 556,350 | 4,261,083 | 4,817,433 | - | 4,817,144 |
| Inter-segment | 634,792 | - | 634,792 | (634,792) | - |
| | 1,191,142 | 4,261,083 | 5,452,255 | (634,792) | 4,817,144 |

| 2019 | Continuing Operations | Discontinued Operations | Total segments | Adjustments and eliminations | Consolidated |
|--------------------------|--------------------------|----------------------------|-------------------|------------------------------------|--------------|
| Segment loss | (43,366,305) | (8,564,208) | (51,930,513) | - | (51,930,513) |
| Total assets | 20,803,434 | - | - | - | 20,803,434 |
| Total liabilities | 11,412,625 | - | - | - | 11,412,625 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 21: OPERATING SEGMENTS (CONTINUED)

| 2018 | CETO wave energy technology/ microgrid BOO | Solar & battery engineering, procurement, and construction | Total segments | Adjustments and eliminations | Consolidated |
|--------------------------|---|---|---------------------------|---|---------------------|
| Revenue | | | | | |
| External customers | 90,773 | 8,987,864 | 9,078,637 | - | 9,078,637 |
| Inter-segment | - | 5,542,516 | 5,542,516 | (5,542,516) | - |
| | <u>90,773</u> | <u>14,530,380</u> | <u>14,621,153</u> | <u>(5,542,516)</u> | <u>9,078,637</u> |
| | | | | | |
| 2018 | CETO wave energy technology/ microgrid BOO | Solar & battery engineering, procurement, and construction | Total segments | Adjustments and eliminations | Consolidated |
| Segment loss | (42,259,531) | (20,247,767) | (62,507,298) | (842,397) | (63,349,695) |
| Total assets | 86,005,203. | 9,567,191 | 95,572,394 | (16,514,412) | 79,057,982 |
| Total liabilities | 4,355,936 | 9,508,301 | 13,864,237 | 3,968,394 | 17,832,631 |

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NOTE 23: CASH FLOW INFORMATION

| | Consolidated Group | |
|--|---------------------------|--------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Reconciliation of Cash Flow from Operations with Loss after Income Tax | | |
| Loss after income tax | (51,930,513) | (63,349,694) |
| Non-cash flows in profit | | |
| Depreciation and amortisation | 250,991 | 117,784 |
| Impairment | 37,877,887 | 31,310,570 |
| Net loss on disposal of assets | - | 3,689 |
| Net gain on foreign exchange | - | (67,258) |
| Write-off of assets | 25,171,525 | 3,623,698 |
| Effect of discontinued operations | (890,731) | 13,368,473 |
| Net gain on financial instruments at fair value | - | (428,669) |
| Fair value gain on derivatives | - | 8,300 |
| Share options & loan funded shares expensed | 10,000 | 1,786,510 |
| Finance costs | - | 1,019,617 |
| Doubtful Debts | 41,310 | 4,651 |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries | | |
| Increase/(decrease) in trade and receivables | (4,299,157) | 2,632,660 |
| Increase/(decrease) in inventory | (464,937) | 361,852 |
| Decrease/(increase) in development assets | 1,669,148 | 886,064 |
| Increase/(decrease) in trade payables and accruals | (2,129,676) | 1,355,560 |
| Increase in provisions | (922,435) | 172,209 |
| Cashflow used in operations | (4,383,412) | (7,193,984) |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 24: EVENTS AFTER THE REPORTING PERIOD

The following events occurred subsequent to the end of the financial year:

1. Convertible Note Facility Agreements

On 22 October 2019, the Company entered into two convertible note facility agreements (**Convertible Note Facility Agreements**) with the following parties:

- iii. HFM Investments Pty Ltd (**HFM**) to the value of \$1.15 million; and
- iv. existing noteholders holding convertible notes to the value of \$4.5 million (**CCE Noteholders**).

Utilisation under the Convertible Note Facility Agreements is subject to satisfaction of conditions precedent. A summary of the material terms of the Convertible Note Facility Agreements is as follows:

- (a) HFM and CCE Noteholders subscribe for the 2021 Notes to the value of \$2,850,000. The commitment amount will be utilised in satisfaction of 50% of the debt owing to HFM and the CCE Noteholders;
- (b) each 2021 Note will have a face value of A\$25,000;
- (c) each 2021 Note will convert into Shares at \$0.00125 per Share, with each Share being issued with one free attaching Option exercisable at \$0.0015 per Option, expiring three years from the date of issue (with both the Shares and Options being subject to voluntary escrow for six months from the date of issue);
- (d) the Company shall repay the 2021 Notes on 31 March 2021 (**Repayment Date**);
- (e) the Company must pay interest on the 2021 Notes at a rate of 8% per annum (**Coupon Rate**), with an issue price of the greater of \$0.001 or the 90 day VWAP calculated prior to the relevant interest payment date, being the date that is one year from the date of issue of the 2021 Notes, each of 31 March, 30 June, 30 September and 31 December thereafter and on 31 March 2021 (**Interest Payment Dates**);
- (f) the Lenders may elect to convert all or part of the 2021 Notes and the accrued interest to Shares any time between one year after the 2021 Notes are issued and prior to the Repayment Date, by providing notice to the Company; and
- (g) if at any time after the date of the Convertible Note Facility Agreements there occurs any reconstruction of the issued capital of the Company then the entitlement of the Lenders to convert the 2021 Notes and any amount of interest owing, then unconverted, shall be reconstructed in a manner that is consistent with the ASX Listing Rules and in the same proportion and manner as any reconstruction of the issued capital of the issue.

2. General Security Agreement

On 22 October 2019, pursuant to the terms of the DOCA, the Company entered into a General Security Agreement (GSA). Under the terms of the GSA:

- (a) the Lenders, being the CCE Noteholders and HFM will be granted a security interest over all present and after acquired property of the Company; and
- (b) the Company will utilise its best endeavours to seek consent from the DoD to obtain a valid charge over the Garden Island Microgrid.

The GSA will be granted over all of the assets and undertakings of the Company, save that the security over the GIMG asset will only apply following grant of the consent of the Department of DoD but at all times apply to any proceeds from the GIMG asset.

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NOTE 24: EVENTS AFTER THE REPORTING PERIOD

3. Entitlement Issue

On 31 July 2019, the Company lodged a prospectus with ASIC to facilitate the recapitalization of the Company as contemplated under the DoCA. The following offers were made under the prospectus:

- (a) a non-renounceable pro rata entitlement offer of four (4) New Shares for every one (1) Share held by Eligible Shareholders at an issue price of \$0.001 per New Share to raise a minimum of \$5,500,000 (before costs) and a maximum of approximately \$11,525,810 (before costs);
- (b) An offer of 500,000,000 New Shares together with 500,000,000 free attaching New Options to the Proponents (and/or their nominees) to the DOCA, being Asymmetric Credit Partners Pty Ltd (a company associated to proposed director Anthony Shields) and Mooney & Partners Pty Ltd (a company associated with director Grant Mooney); and
- (c) An offer of 113 Convertible Notes (2021 Notes) each with a face value of \$25,000 to the CCE Noteholders and HFM (and/or their nominees).
- (d) The Offer closed on 18 September 2019 and on 23 September 2019 the Company announced to ASX that it had raised the required \$5.5 million to meet the minimum subscription level and was working towards meeting the remaining conditions in order to have its securities reinstated to quotation on ASX.

4. General Meeting of Shareholders

At the Company's General Meeting of Shareholders held on 30 August 2019 all resolutions were passed to proceed with current Entitlement Offer and Recapitalisation Proposal.

5. Garden Island Microgrid

On 23 August 2019, the Company announced that that the Garden Island Microgrid (GIMG) had commenced operations following approval from the Department of Defence. With approvals in place from Department of Defence and Western Power (received in late June), Carnegie had officially powered up the system and commenced producing clean renewable energy for HMAS Stirling, Australia's largest naval base. Carnegie subsequently announced on 12 September 2019 that it had submitted its first invoice for the sale of power to Department of Defence.

With the exception of the above, no other matters or circumstances not otherwise dealt with in this report or the consolidated financial statements, have arisen since the end of the financial year which significantly affected, or may significantly affect, the operations of the Consolidated Group, the results of those operations or the state of affairs of the Consolidated Group in subsequent financial years.

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NOTE 25: RELATED PARTY TRANSACTIONS

Sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. The Group has not recorded any impairment on receivables relating to amounts owed by related parties.

Transactions and balances with Director related entities

- a) Company secretarial services have been provided by Mooney & Partners Pty Ltd, a company associated with Grant Mooney during the financial year. These amounts have been included in the disclosures at Note 5. These transactions were undertaken under normal commercial terms.
- b) Consulting services have been provided by Tallarook Ltd, a company associated with Mark Woodall during the financial year. These amounts have been included in the disclosures at Note 5. These transactions were undertaken under normal commercial terms.
- c) Consulting services provided by Utility Advisory Services, a company associated with Kieran O'Brien during the previous financial year. These amounts have been included in the disclosures at Note 5. These transactions were undertaken under normal commercial terms.
- d) Balances outstanding with Director and Director related entities:

| | 2019 | 2018 |
|--|-------------|-------------|
| | \$ | \$ |
| Amount owing from Solar Farm Carnarvon Pty Ltd | 51,208 | - |
| Contingent amount owing (refer to Note 15) | - | - |
| <u>Michael Fitzpatrick</u> | 2019 | 2018 |
| | \$ | \$ |
| Amount owing to Log Creek Pty Ltd | - | (963,788) |
| <u>Michael Ottaviano</u> | | |
| Amount owing from Michael Ottaviano | - | 32,532 |

- e) Transactions and balances with Associates

Transactions with Associates

| | 2019 | 2018 |
|--------------------------------|-------------|-------------|
| | \$ | \$ |
| Sales to EMC Kimberley Pty Ltd | - | 641,179 |

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NOTE 26: FINANCIAL RISK MANAGEMENT

Financial Risk Management Policies

The Board of Directors has responsibility for, amongst other issues, monitoring and managing financial risk exposures of the Consolidated Group. The Board monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counter party credit risk, currency risk, financing risk and interest rate risk.

(a) **Interest rate risk**

The Consolidated Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. The effective weighted average interest rates in classes of financial assets and liabilities is as follows:

| Consolidated Group | Weighted Average Effective Interest Rate % | Floating Interest Rate \$ | Fixed Interest Rate Maturing | | Non-interest Bearing \$ | Total \$ |
|---------------------------|--|---------------------------|------------------------------|--------------|-------------------------|------------|
| | | | Within year | 1 to 5 years | | |
| | | | \$ | \$ | | |
| 30 June 2019: | | | | | | |
| Financial assets: | | | | | | |
| Cash and cash equivalents | 0.0% | 218,678 | - | - | 36,928 | 255,606 |
| Receivables | 0.95% | - | 1,945,306 | - | 713,291 | 2,658,597 |
| Financial assets | - | - | - | - | 12,414 | 12,414 |
| | | 218,678 | 1,945,306 | - | 762,633 | 2,926,617 |
| Financial liabilities: | | | | | | |
| Accounts payable | | - | - | - | 5,253,825 | 5,253,825 |
| Borrowings | | - | 6,039,987 | - | - | 6,039,987 |
| | | - | 6,039,987 | - | 5,253,825 | 11,342,812 |

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NOTE 26: FINANCIAL RISK MANAGEMENT (CONTINUED)

| Consolidated Group | Weighted Average Effective Interest Rate % | Floating Interest Rate \$ | Fixed Interest Rate Maturing | | Non-interest Bearing \$ | Total \$ |
|---------------------------|--|---------------------------|------------------------------|-----------------|-------------------------|------------|
| | | | Within year \$ | 1 to 5 years \$ | | |
| 30 June 2018: | | | | | | |
| Financial assets: | | | | | | |
| Cash and cash equivalents | 0.5 | 7,588,192 | 702,877 | - | 145,461 | 8,436,530 |
| Receivables | 1.24 | - | 1,896,175 | - | 3,895,108 | 5,791,283 |
| Financial assets | - | - | - | - | 12,414 | 12,414 |
| | | 7,588,192 | 2,599,052 | - | 4,052,813 | 14,240,227 |
| Financial liabilities: | | | | | | |
| Accounts payable | | - | - | - | 7,448,076 | 7,448,076 |
| Borrowings | 9.2 | 722,827 | - | 8,087,047 | - | 8,809,874 |
| | | 722,827 | - | 8,087,047 | 7,448,076 | 16,257,950 |

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the Statement of Financial Position and notes to the Statement of Financial Position.

The Consolidated Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Consolidated Group. Details with respect to credit risk of trade and other receivables are provided in Note 9. The credit risk on liquid funds is limited because the counter parties are banks with high credit ratings.

(c) Net fair value

The net fair value and carrying amounts of financial assets and financial liabilities are disclosed in the Statement of Financial Position and in the notes to the Statement of Financial Position.

For unlisted investments where there is no organised financial market the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment, where this could not be done, they have been carried at cost. No financial assets or financial liabilities are readily traded on organised markets in standardised form other than investments.

Financial Instruments Measured at Fair Value

The financial instruments recognised at fair value in the Statement of Financial Position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
ADMINISTRATORS APPOINTED)**

ABN 69 009 237 736

AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 26: FINANCIAL RISK MANAGEMENT (CONTINUED)

Consolidated Group

| 2019 | Level 1 | Level 2 | Level 3 | Total |
|--------------------------|----------------|----------------|----------------|--------------|
| | \$ | \$ | \$ | \$ |
| Financial assets: | | | | |
| <i>Financial assets:</i> | | | | |
| — Unlisted investments | - | - | 12,414 | 12,414 |
| | - | - | 12,414 | 12,414 |
| <hr/> | | | | |
| 2018 | Level 1 | Level 2 | Level 3 | Total |
| | \$ | \$ | \$ | \$ |
| Financial assets: | | | | |
| <i>Financial assets:</i> | | | | |
| — Unlisted investments | - | - | 12,414 | 12,414 |
| | - | - | 12,414 | 12,414 |
| <hr/> | | | | |

(d) **Sensitivity Analysis**

Interest Rate Risk

The group has performed sensitivity analysis relating to its exposure to interest rate risk, at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis

At 30 June 2019, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

| | Consolidated Group | |
|-----------------------------------|---------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Change in profit | | |
| — Increase in interest rate by 1% | 6,523 | 155,340 |
| — Decrease in interest rate by 1% | (6,523) | (155,340) |
| Change in Equity | | |
| — Increase in interest rate by 1% | 6,523 | 155,340 |
| — Decrease in interest rate by 1% | (6,523) | (155,340) |

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
ADMINISTRATORS APPOINTED)**

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AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 26: FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) **Liquidity Risk**

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- investing only in surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

Borrowings, trade and sundry payables are expected to be paid as followed:

| Contractual Cash flows | Consolidated Group | |
|-------------------------------|---------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Less than 3 months | - | 7,383,500 |
| 3 months to 12 months | - | 722,827 |
| 1 to 5 years | - | 8,151,623 |
| | - | 16,257,950 |

NOTE 27: SHARE BASED PAYMENTS

Types of share-based payment plans

Employee share option plan

Share options are granted to executives and staff at the discretion of the Board of Directors. Share options are only granted to Director's after approval by shareholders. The plan is designed to align participants' interests with those of shareholders by increasing value of the Company's shares. Under the plan, the exercise price of the options is set by the Board of Directors at the time of issue.

Management Incentive Equity Plan

Following shareholder approval, shares were issued at market value to the Managing Director and were funded by a limited recourse loan. The share issue is not recognized as issued capital and is treated as a share option issue in accordance with accounting standards. The plan is designed to align participants' interests with those of shareholders by increasing value of the Company's shares. During the financial year, the Company announced the departure of Michael Ottaviano from the position of Managing Director and Chief Executive Officer with effect from 30 September 2018. In accordance with Michael Ottaviano's departure, the shares issued to him pursuant to the Plan were returned to the Company in accordance with the limited recourse loan.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
ADMINISTRATORS APPOINTED)**

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AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 27: SHARE BASED PAYMENTS (CONTINUED)

Consultant & financier share options

Share options are granted to consultants at the discretion of the Board of Directors for services provided to the Consolidated Group. The exercise price of the options is set by the Board of Directors at the time of issue.

Consultant & financier shares

Shares are granted to consultants and financiers at the discretion of the Board of Directors for services provided to the Consolidated Group.

No shares or options were issued to consultants and financiers during the financial year ended 30 June 2019 (2018: 35,000,000) in relation to fees for the restructure of \$2,800,000 in convertible notes (refer to Note 17(i)). No other shares or share options were issued during the financial year (2018: Nil) in relation to the above share-based payment plans.

Total options outstanding and exercisable are as follows:

| | Consolidated Group | Weighted Average |
|------------------------------------|---------------------------|-------------------------|
| | Number | Exercise Price |
| | of options | \$ |
| Outstanding options at 1 July 2018 | 95,100,000 | 0.0609 |
| Granted | 10,000,000 | 0.0016 |
| Exercised | - | - |
| Expired | (60,100,000) | 0.054 |
| Outstanding at 30 June 2019 | 45,000,000 | 0.0502 |
| Exercisable at 30 June 2019 | 45,000,000 | 0.0502 |

The options outstanding at 30 June 2019 had a weighted average exercise price of \$0.0609 and a weighted average remaining contractual life of 1.87 years. Exercise prices range from \$0.016 to \$0.06 in respect to options outstanding at 30 June 2019.

The fair value of the equity-settled share options granted of options issued during the year is estimated as at the date of grant using the Black-scholes model taking into account the terms and conditions upon which the options were granted. These are the key inputs to value the options.

| | |
|---|-------------|
| Grant Date | 10 Oct 2018 |
| Expiry Date | 10 Oct 2021 |
| Exercise Price | \$0.016 |
| Expected Volatility | 75% |
| Number of options | 10,000,000 |
| Value per option | \$0.001 |
| Total Value of options issued during year | \$10,000 |

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 28: PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

STATEMENT OF FINANCIAL POSITION

ASSETS

| | | |
|---------------------|-------------------|-------------------|
| Current assets | 1,116,867 | 9,070,880 |
| Non-current assets | 15,068,574 | 73,982,287 |
| TOTAL ASSETS | 16,185,441 | 83,053,167 |

LIABILITIES

| | | |
|--------------------------|-------------------|-------------------|
| Current liabilities | 11,403,289 | 4,652,229 |
| Non-current liabilities | 49,484 | 4,581,374 |
| TOTAL LIABILITIES | 11,452,773 | 9,233,603 |
| TOTAL NET ASSETS | 4,732,668 | 73,819,564 |

EQUITY

| | | |
|---------------------|------------------|-------------------|
| Issued capital | 194,372,911 | 196,060,984 |
| Reserves | 850,000 | 3,009,954 |
| Accumulated losses | (190,490,243) | (125,251,374) |
| TOTAL EQUITY | 4,732,668 | 73,819,564 |

STATEMENT OF COMPREHENSIVE INCOME

| | | |
|-----------------------------|--------------|--------------|
| Total loss | (70,776,974) | (50,916,679) |
| Total comprehensive expense | (70,776,974) | (50,916,679) |

Guarantees

Pursuant to the Joint Venture arrangements between Energy Made Clean Pty Ltd (EMC) and Lendlease Services Pty Limited (LLS), Carnegie Clean Energy Limited (CCE) and Lendlease Construction Australia Holdings Pty Ltd (LLCAH) have entered into a Deed of Cross Guarantee dated 16 December 2016 (Guarantee). Under the Guarantee, CCE and LLCAH each guarantee the performance of their respective subsidiaries EMC and LLS under the EMC Lendlease Joint Venture.

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 28: PARENT INFORMATION (CONTINUED) Under the Guarantee, CCE and LLCAH each guarantee the performance of their respective subsidiaries EMC and LLS under the EMC Lendlease Joint Venture.

Contractual commitments

The Company had entered into the following contractual commitments for the acquisition of property, plant and equipment:

| | Consolidated Group | |
|--|---------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Capital Commitments | | |
| Not later than 1 year | - | 2,038,705 |
| Later than 1 year but not later than 5 years | - | - |
| Later than 5 years | - | - |
| | - | 2,038,705 |

Capital commitments consist of the Group's portion of commitments to build the Northam Solar Farm due for completion in the 2019 financial year.

NOTE 29: INVENTORY

| | Consolidated Group | |
|--|---------------------------|--------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Balance at beginning of period | 464,937 | 1,389,218 |
| Add: Purchases during period | - | 10,660,324 |
| Less: loss of control of entity with inventory | (464,937) | - |
| Less: Cost of goods sold | - | (11,584,605) |
| Balance at end of period | - | 464,937 |

Inventory is broken down as follows:

| | | |
|------------------|---|---------|
| Raw materials | - | 464,937 |
| Goods in transit | - | - |
| Work in progress | - | - |
| | - | 464,937 |

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 30: LOSS FROM DISCONTINUED OPERATIONS

On 14 March 2019 EMC was placed into voluntary administration. After holding meetings with creditors, the Administrators are taking steps to liquidate EMC. In addition, the loss from Northam Solar farm was also classified as a discontinued operation. The total losses written off are as follows:

| | 2019 |
|--|--------------|
| | \$ |
| Loan write off EMC | 11,798,583 |
| Net debtors/creditor write off EMC | 5,224,274 |
| Investment write off EMC | 8,148,668 |
| Investment write off EMC Engineering (subsidiary of EMC) | 85,000 |
| Loss for the financial year from discontinued operations | 5,258,049 |
| Gain on write off Accumulated Losses EMC | (21,950,366) |
| Loss from discontinued operations | 8,564,208 |

NOTE 31: DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS

Carnegie holds a 11.3% interest (2018: 50%) in the Northam Solar Farm (NSF)(to be disposed of under the DoCA), which expects to create large scale generation certificates (LGCs) from its renewable energy generation in future periods. Under the Renewable Energy Target Scheme (RET Scheme) renewable energy producers create a certificate for each megawatt-hour of renewable electricity they produce and liable entities are required to surrender LGCs to the Clean Energy Regulator. The price of LGCs is determined based on supply and demand for these certificates and may be impacted by the actions of market participants and any changes to existing government regulations.

The NSF holds agreements with various parties to supply LGCs at future dates. These forward contracts are not designated as cash flow hedges and are entered into for periods consistent with the expected renewable energy generation from the Partnership's assets. Any of these actions or reduced confidence in the RET scheme could adversely affect the Group's revenue and future financial performance.

The fair value of the LGCs are based on quoted forward markets, being level one inputs in the fair value hierarchy. Where a LGC is expected to be settled within 12 months they are to be disclosed as current. All other LGCs are disclosed as non-current.

| | 2019 | 2018 |
|--|-------------|-------------|
| | \$ | \$ |
| <i>Current Asset</i> | | |
| Opening balance | 9,750 | - |
| Movement in fair value of derivatives reflected in Profit and Loss | (9,750) | 9,750 |
| Closing balance | - | 9,750 |
| <i>Non-Current Liability</i> | | |
| Opening balance | (18,050) | - |
| Movement in fair value of derivatives reflected in Profit and Loss | 18,050 | (18,050) |
| Closing balance | - | (18,050) |
| <i>Net loss on derivatives not designated as hedging instruments</i> | | |
| Current asset derivatives | - | 9,750 |
| Non-current liability derivatives | - | (18,050) |
| | - | (8,300) |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 32: ASSETS HELD FOR SALE

Northam Solar Farm Partnership

At 1 July 2018 the Company held a 50% interest in the Northam Solar Farm Joint Arrangement, a 10 MW solar power station with Indigenous Business Australia and Bookitja. As announced on 12 December 2018, the company completed the partial sale of its 50% interest in the Joint Arrangement to Indigenous Business Australia (IBA) retaining 11.33%. The Company sold the remaining 11.33% investment in October 2019 for \$200,868.

Loss on revaluation of investment held for sale

Northam Solar Farm

| | \$ |
|-------------------------------------|----------------|
| Net Assets at 1 July 2018 | 3,016,909 |
| Net change in value of assets FY 19 | (123,868) |
| Less impairment charge | (2,692,173) |
| Value of assets held for sale | <u>200,868</u> |

NOTE 33: COMPANY DETAILS

The registered office and Principal place of business of the Company is:

Carnegie Clean Energy Limited
21 North Mole Drive
NORTH FREMANTLE WA 6159

**CARNEGIE CLEAN ENERGY LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT,
ADMINISTRATORS APPOINTED)**

ABN 69 009 237 736

AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 16 to 65, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards and the *Corporations Regulations 2001*;
 - b. give a true and fair view of the financial position as at 30 June 2019 and of the performance for the year ended on that date of the Consolidated Group;
2. the financial statements comply with International Financial Reporting Standards as set out in Note 1;
3. the remuneration disclosures that are contained in the Remuneration Report in the Directors Report comply with the *Corporations Act 2001* and the *Corporations Regulations 2001*; and
4. the Managing Director and Chief Finance Officer have each declared that:
 - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view;
5. In the Director's opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'Grant Mooney', with a large, stylized initial 'G'.

GRANT J. MOONEY

Director

Dated this 25th day of October 2019

INDEPENDENT AUDITOR'S REPORT

To the members of Carnegie Clean Energy Limited (Subject To Deed Of Company Arrangement, Administrators Appointed)

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Carnegie Clean Energy Limited (Subject To Deed Of Company Arrangement, Administrators Appointed) ("the Company") and its controlled entities ("the Consolidated Group"), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Consolidated Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Consolidated Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. 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 Consolidated Group in accordance with the auditor independence requirements of 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 also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which indicates that a material uncertainty exists that may cast significant doubt on the Consolidated Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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. In addition to the matter described in the *Material Uncertainty Related to Going Concern* paragraph above, we have determined the matters described below to be the key audit matters to be communicated in our report.

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| Key Audit Matter | How our audit addressed the key audit matter |
|-------------------------|---|
|-------------------------|---|

| | |
|---|--|
| <p>Revenue and the related risk of fraud Note 2 of the financial report</p> <hr/> <p>The Consolidated Group predominately generates revenue through its Microgrid and large scale solar projects.</p> <p>Due to the presumption of risk over revenue recognition as prescribed by the Australian Auditing Standards Board, this area has been subject to significant audit procedures.</p> | <p>Our procedures included but were not limited to the following:</p> <ul style="list-style-type: none"> - We reviewed the Consolidated Group's accounting policy with regards to the recognition of revenue and the deferral of revenue and costs over the length of each contract or subscription agreement with each customer; - Documented our understanding of Management's accounting policies for the Group's contract revenues - We selected a sample of revenue transactions and agreed the transaction to the underlying supporting documentation; - We performed audit procedures to ensure that revenue is materially complete by examining procedures surrounding cut-off at balance date and ensuring, for a sample of purchase transactions, that each item selected corresponded to a sales transaction; and - We assessed the adequacy of the Consolidated Group's disclosures in respect to revenue, deferred revenue and deferred costs. |
|---|--|

| | |
|---|--|
| <p>Fair value of intangible assets Note 13 of the financial report</p> <hr/> <p>As at 30 June 2019, the Consolidated Group had an intangible assets balance of \$15.0 million which related to capitalised development costs and intellectual property.</p> <p>Under AASB 136 <i>Impairment of Assets</i>, finite life intangible assets are subject to an impairment test should indicators of impairment arise.</p> <p>We consider the recoverable amount of intangible assets to be a key audit matter as it involves complex matters involving subjectivity and judgement, it is material to the users' understanding of the financial statements as a whole and it required significant auditor attention and communication with those charged with governance.</p> | <p>Our procedures included but were not limited to the following:</p> <ul style="list-style-type: none"> - We reviewed the valuation obtained by management from an independent expert and the valuation approach adopted; - We considered the ability to rely on the work of the independent expert; - We considered material assumptions and calculations used to calculate the fair value of the asset; - We reviewed management's assessment in relation to recoverable amounts; and - We assessed the appropriateness of the disclosures included in the relevant notes to the financial report. |
|---|--|

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Consolidated Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Consolidated Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Consolidated 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 objectives are 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 and 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Consolidated Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Carnegie Clean Energy Limited (Subject To Deed Of Company Arrangement, Administrators Appointed) for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

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



HLB Mann Judd
Chartered Accountants

Perth, Western Australia
25 October 2019



N G Neill
Partner

Additional Information

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report. The information was prepared based on share registry information processed up to 28 October 2019.

| Spread of Holdings | Number of holders of ordinary shares |
|--------------------|--------------------------------------|
| 1 - 1,000 | 247 |
| 1,001 - 5,000 | 509 |
| 5,001 - 10,000 | 822 |
| 10,001 - 100,000 | 4,464 |
| 100,001 and over | 4,877 |

Number of Holders: 10,919

Number of Shareholders holding less than a marketable parcel: 8,677

| SUBSTANTIAL SHAREHOLDERS | | |
|------------------------------------|------------------|--------|
| Shareholder Name | Number of Shares | % |
| Log Creek Pty Ltd | 1,486,826,795 | 13.34% |
| Eminent Holdings Pty Ltd | 801,405,194 | 7.19% |
| Asymmetric Credit Partners Pty Ltd | 641,750,000 | 5.76% |

Voting Rights: All ordinary shares carry one vote per share without restriction. Options for ordinary shares do not carry any voting rights.

Statement of Quoted Securities: Listed on the Australian Stock Exchange are 11,141,452,450 fully paid shares. All ordinary shares carry one vote per share without restriction. Options for ordinary shares do not carry any voting rights.

Company Secretary: The name of the Company Secretary is Grant Jonathan Mooney.

Registered Office: The registered office is at 21 North Mole Drive, North Fremantle WA 6169. The telephone number is (08) 6168 8400

| TWENTY LARGEST HOLDERS OF EACH CLASS OF QUOTED EQUITY SECURITIES | | |
|--|----------------------|-----------------------|
| ORDINARY FULLY PAID SHARES | | |
| Shareholder Name | Number of Shares | Percentage of Capital |
| Eminent Holdings Pty Ltd | 800,000,000 | 7.18 |
| Log Creek Pty Ltd | 584,099,520 | 5.24 |
| HFM Investments Pty Ltd | 460,000,000 | 4.13 |
| Log Creek Pty Ltd <88 Green A/c> | 400,000,000 | 3.59 |
| Grant Mooney | 250,000,000 | 2.24 |
| Asymmetric Credit Partners Pty Ltd | 250,000,000 | 2.24 |
| Richcab Pty Ltd | 243,765,000 | 2.19 |
| Citicorp Nominees Pty Ltd | 242,376,186 | 2.18 |
| ACN 112 940 057 Pty Ltd | 200,000,000 | 1.80 |
| Kenneth Roger James | 200,000,000 | 1.80 |
| Asymmetric Arbitrage Pty Ltd | 200,000,000 | 1.80 |
| Dawnray Pty Ltd <HWBL Super Fund A/C> | 200,000,000 | 1.80 |
| JP Morgan Nominees Australia Pty Ltd | 156,545,753 | 1.41 |
| John Rix Davidson <John Davidson Family A/C> | 148,795,309 | 1.34 |
| Prosperion Wealth Management Pty Ltd <Investment A/C> | 100,000,000 | 0.90 |
| Flourish Super Pty Ltd | 100,000,000 | 0.90 |
| Matthew Peter Fraser | 96,325,162 | 0.86 |
| Carl & MR Gianatti <Gianatti Super Fund A/C> | 77,935,589 | 0.70 |
| Scott D & BV Grogan | 70,000,000 | 0.63 |
| Cathben Pty Ltd | 67,524,355 | 0.61 |
| TOTAL | 4,847,366,874 | 43.54% |

| HOLDERS OF SECURITIES IN AN UNLISTED CLASS | | | |
|--|--------------------|--------------------------|----------------------|
| OPTIONS | | | |
| Optionholder Name | No. Options | Exercise Price \$ | Exercise Date |
| Grant Mooney | 250,000,000 | 0.00125 | 28 Oct 24 |
| Asymmetric Credit Partners Pty Ltd | 250,000,000 | 0.00125 | 28 Oct 24 |
| Eminent Holdings Pty Ltd (ACN 009 265 972) | 800,000,000 | 0.0015 | 28 Oct 22 |
| Log Creek Pty Ltd (ACN 100 874 851) <88 Green A/C> | 400,000,000 | 0.0015 | 28 Oct 22 |
| Dawnray Pty Ltd (ACN 100 971 980) ATF The HWBL Superannuation Fund | 200,000,000 | 0.0015 | 28 Oct 22 |
| Richcab Pty Ltd (ACN 069 335 459) | 200,000,000 | 0.0015 | 28 Oct 22 |
| Asymmetric Credit Partners Pty Ltd | 200,000,000 | 0.0015 | 28 Oct 22 |
| HFM Investments Pty Ltd | 460,000,000 | 0.0015 | 28 Oct 22 |
| Jonathan Fievez | 10,000,000 | 0.016 | 10 Oct 21 |
| Asymmetric Credit Partners Pty Ltd | 25,000,000 | 0.06 | 24 Jan 24 |
| Wolf Capital Pty Ltd | 6,250,000 | 0.06 | 24 Jan 24 |
| Chris Dale | 3,750,000 | 0.06 | 24 Jan 24 |

| HOLDERS OF RESTRICTED SECURITIES | | |
|--|------------------------|------------------|
| Convertible Notes (6-month conversion restriction) | | |
| Noteholder Name | Number of Notes | Value \$ |
| Eminent Holdings Pty Ltd (ACN 009 265 972) | 40 | 1,000,000 |
| Log Creek Pty Ltd (ACN 100 874 851) <88 Green A/C> | 20 | 500,000 |
| Dawnray Pty Ltd (ACN 100 971 980) ATF The HWBL Superannuation Fund | 10 | 250,000 |
| Richcab Pty Ltd (ACN 069 335 459) | 10 | 250,000 |
| Asymmetric Credit Partners Pty Ltd | 10 | 250,000 |
| HFM Investments Pty Ltd | 23 | 575,000 |
| Total | 113 | 2,825,000 |

Restricted securities are escrowed from conversion until 28 April 2020.

| ASX WAIVERS | |
|---|---------------------|
| Nature of Waiver | Date Granted |
| Listing Rule 7.11.3 - ratio of rights issue offer | 9-Jul-19 |
| Listing Rule 10.1 - granting of security to director related entity | 9-Jul-19 |
| Listing Rule 10.1 - granting of security to director related entity | 6-Aug-19 |
| Listing Rule 7.3.2 - Issue of securities subject to Shareholder Approval beyond 3 months | 6-Aug-19 |
| Listing Rule 10.13.3 and 10.13.5 - Issue of securities subject to related party Shareholder Approval beyond 1 month | 6-Aug-19 |
| Listing Rule 14.7 - Issue of securities subject to related party Shareholder Approval beyond 1 month | 6-Aug-19 |



The global need for renewable energy is critical.

Wave energy is an immense untapped resource.

*Carnegie harnesses wave energy through our deep expertise,
innovative technology and passionate people.*