# ANNUAL REPORT 2011

# Contents



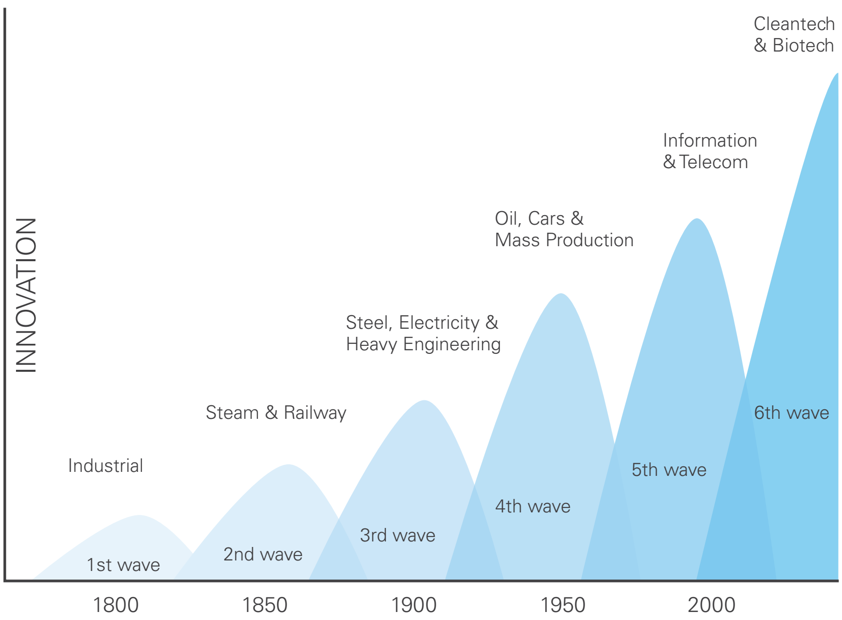
## Clean TeQ is an Australian based environmental group which develops, commercialises and sells technologies for air purification, water purification, and resource recovery.

Since its inception in 1990, Clean TeQ has provided air pollution control through biological and thermal based processes.

Over the past decade, Clean TeQ has been at the forefront of development of separation and purification technologies for water and resource recovery, providing enhanced outcomes for these sectors.

The technologies that Clean TeQ has developed over the prior years form part of a growing global cleantech market sector, which is seen as the next wave of industrial innovation. Clean TeQ is poised to capitalise on this potential growth especially in water treatment in the short term.

### WAVES of INNOVATION




Source: The Natural Edge Project 2004

# Clean TeQ **Vision**

## What we do:

- Engage in Research & Development of technology to provide a better outcome in the areas of air purification, water purification and resource recovery.
- Maintain a growing portfolio of intellectual property relating to these technologies.
- Commercialise these technologies for applications in industrial and municipal sectors of the market.
- Combine complementary technologies in innovative ways to provide better outcomes for complex problems.
- Assist our customers to achieve sustainable outcomes as well as enhanced economic benefits where possible.
- Aim to provide our shareholders with enhanced profitability from commercialisation of these technologies.

We will be a global leader in the protection of our planet's most valuable resources – air and water. Where air or water quality may have been compromised by industrial use we will use our technical innovations and engineered solutions to help preserve these resources for a sustainable future.

Three out of four global consumers rated air pollution (77%) and water pollution (75%) as top concerns, both increasing six percentage points compared to 2009.

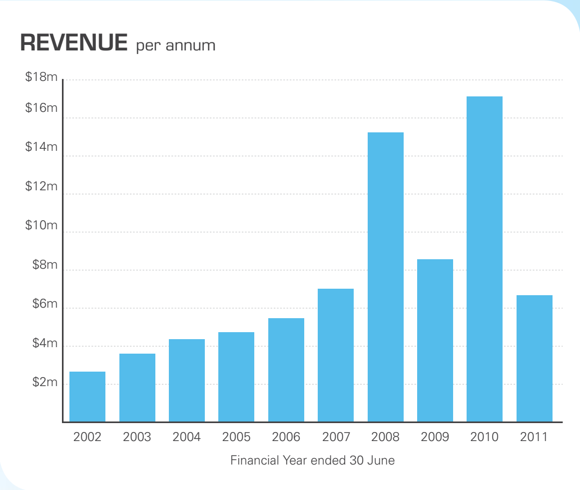
The Nielsen Global Online Environmental & Sustainability Survey, 2011

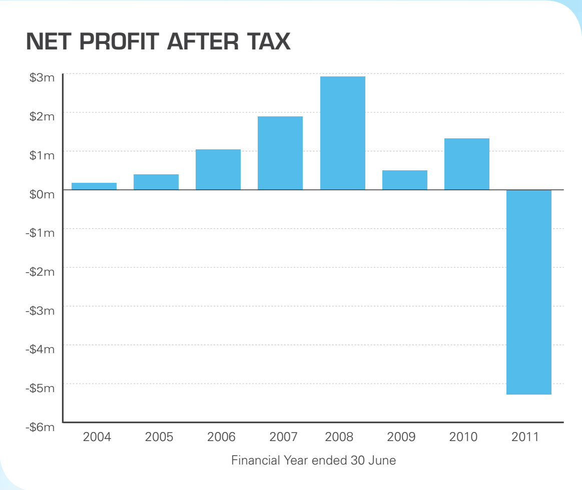
# 2011 Year in **Review**

- During the year, the Company has experienced the most difficult trading conditions in its history.
- Results for the year were:
  - Revenue of $6.665 million
  - Operating Loss after tax of $2.736 million
  - Net Loss after impairment of R&D and tax of $5.274 million
  - Cash on hand at 30 June 2011 of $1.347 million
- Revenue declined substantially with slowdown in number of projects awarded and/or commenced.
- UV Guard water disinfection business continued to perform well with servicing & maintenance of equipment, rather than project delivery.
- Average year on year revenue growth of 10%pa over the past decade, even with the lower performance of 2011.
- Successful demonstration of Clean-iX® plant for treatment of high salinity groundwater.
- Restructure during the year to reduce fixed cost base and position for profit growth in 2012.
- Conservative approach to R&D holding on the Balance Sheet to reflect the slowed rate of commercialisation during the year.
- Convertible Note facility used for funding of operations.

## THE MARKET

- The global cleantech market is large in all sectors in which we compete.
- Clean TeQ has made significant investment in people and technologies over many years so as to be able to capitalise on this large and growing market.
- Community and industry awareness of difficult pollution problems (eg coal seam gas waters) is increasing, driving the need for sustainable solutions.
- There is growing interest in Clean TeQ technologies from global companies looking for partners.



# **Chairman's** Report

The 2011 financial year was challenging for the Company. The market for air purification projects declined in total and was subjected to aggressive Asian based competition, and the anticipated demand for the trialing of our minerals extraction technology did not eventuate.

**However, on the positive side, the demonstration of our proprietary Clean-iX® technology for desalination of groundwater was successfully concluded with international interest in its application at year end; and, along with a continuing positive outcome for our UV Guard disinfection business, augurs well for our water business.**

The loss for the year was especially disappointing following a record sales year in the previous period. The Company was staffed for continuing growth based on the pipeline of new projects at that stage. Subsequently, the business operations have been restructured to meet the market conditions, which along with contracts for new projects signed for delivery in the 2012 year, are expected to return Clean TeQ to growth and profitability in 2012.

Despite the difficulties encountered in 2011, the long term outlook for the market place targeted by Clean TeQ is positive. The issues of water quality and recycling continue to grow in importance to Governments and local communities, especially in the rapidly expanding coal seam gas industry.

The control of air emissions is also a growing problem in various parts of the world, as is the need for improved mineral extraction and remediation technologies. The learning for Clean TeQ over the past year has been that to be able to successfully meet the market challenges in these areas, we will need to have a global perspective. We need to partner with global businesses that can assist in the commercialization of technologies and provide resourcing to enable that to occur. A key focus for the business in the next year is to build and expand our relationships with a number of global industry participants that are interested in partnering with Clean TeQ to fast track and de-risk the commercialisation of our Clean-iX® technology in international markets.

The technologies that Clean TeQ owns or licenses are leading edge for the particular applications, and are able to be applied to provide both environmental and economic benefits. The Air Division aims to mitigate noxious odours in industry and wastewater treatment plants, generally using biological solutions. These solutions are more sustainable than previous chemical applications, with the odour molecules metabolized by the bacteria rather than masked by chemicals. For more complex odours, thermal oxidation is employed using a less energy intensive means with the potential to recover the heat generated for power production. Additionally, the technology can remove certain greenhouse gases which contribute to climate change issues and thus can provide carbon credits for the owner.

Despite the difficult market conditions in 2011, we have continued to develop and demonstrate our proprietary Clean-iX® technology as a solution to complex water quality problems, with the commissioning of a 0.7 million litres per day demonstration facility at a Golf Club in Melbourne to provide suitable water for the course from salty groundwater. Consequent on these developments, we are in a position to supply a solution to water problems in the coal seam gas industry. This industry is threatened by the local impacts of extracted water. The resulting clean water from Clean-iX® technology can be used for agriculture or industry. The same technology can be used for industrial waters, effluents and mining wastes. The potential to also recover valuable materials from the waste (such as metals and salts) enhances the value of this technology.

The Mining Division utilizes similar technology to extract metals at a higher yield and a lower cost. The higher recovery of extracted metals also results in a lesser environmental burden. In other instances, additional metals can be extracted along with the target metal, such as silver with gold extraction, which with existing technology is not commercially viable. Clean TeQ has been providing consulting services to five mining companies for the application of this new technology in their operations, as they progress towards development. However, the take up will not only depend on the outcomes of the feasibility studies but also on the ability of Clean TeQ to be able to source funding for implementation.

The inherent risk involved in the adoption of these new processes must be minimized. This can be achieved by access to global partners who can mitigate the risk with a larger balance sheet and engineering resources. Once technology can be shown to achieve its potential in a commercial application, the uptake by additional customers will be enhanced. Clean TeQ is in discussion with potential partners about alliances on separate industry segments where our technologies are ready for commercialisation.

The potential to further commercialise our technologies over the following years provides an exciting future for Clean TeQ. We are positioned to provide solutions for some of the most compelling problems in the air, water and mining sectors. This requires our ongoing dedication and commitment to deliver these solutions. Our staff are passionate about the marketplace opportunities for our technologies and remain committed to their success despite the difficult 2011 year. I thank all of our staff for their perseverance and continuing enthusiasm for the business over this past year.

It has also been a trying year for shareholders with disappointing progress of our business. I thank all shareholders for their support and patience. We anticipate a better performance this current year in terms of profitability and the commercial development of our technologies.

Finally, I express my appreciation to my fellow Board members for their input over the past 12 months. Their commitment to the business, along with their diverse areas of experience will be invaluable in enhancing the robust growth of the Company.

Yours faithfully

**Greg Toll**
Executive Chairman

# CEO's Report AS AT 30 JUNE 2011

Clean TeQ Holdings Limited (ASX: CLQ) has developed an extensive range of proprietary and licensed technologies over the past 21 years for use in the purification of air and water and the extraction of minerals in mining processing operations.

**Our strategy has been to be at the forefront of the appraisal, development and application of purification processes based around biology, separation and oxidation technologies to deliver the best and most economical outcomes to our customers. We deliver our environmental engineering solutions and services to government authorities, industrial and mining companies both in Australia and overseas.**

Despite the developing awareness of environmental issues, the 2011 financial year has seen some of the most difficult trading conditions experienced in the Company's history. This follows on from the 2010 financial year which was one of the best revenue performances for the Company which benefited from the Government GFC related stimulus packages. While we entered the year with an expectation of achieving sales growth, the reality proved to be different.

Sales for the year were lower as anticipated projects were delayed, cancelled or lost to lower priced competition as the Government stimulus packages phased out and industrial customers began to take a conservative approach to capital investment.

In response we increased overseas procurement to lower the cost of goods, made heavy cuts to our fixed cost base and actively pursued new business partnering opportunities to strengthen our market position for the future. In the last months of the financial year, the pipeline of projects for the next financial year has shown positive signs of improvement and with projects already contracted in June 2011, the indications are that we will return to growth and profit for the 2012 financial year.

The financial report for the year ending 30 June 2011 shows a loss position. This has been costly for the Company in terms of its cash position and its impact on our ability to create value through commercialisation of our extensive IP portfolio. We have used this time to re-evaluate our business model and focus our goals to achieve a better outcome for the 2012 financial year.

## PERFORMANCE

| | 30 June 2011 $'000 | 30 June 2010 $'000 | 30 June 2009 $'000 |
|---|---|---|---|
| Revenue | 6,665 | 17,116 | 8,552 |
| EBITDA | (3,170)* | 2,494 | 388 |
| NPAT | (5,274) | 1,334 | 511 |

* Before impairment of research and development of $3,042.

Following the record sales in our previous year and with an extensive pipeline of potential projects at the beginning of the year, the Company was manned to a level commensurate with the expectation of growth in the year. However, many projects were not contracted or were lost to contractors using cheaper, Asian-sourced equipment. Under these changed market circumstances, we were forced to cut the fixed cost base which meant restructuring, reducing staff numbers and freezing salaries. We have entered the new financial year with a lower fixed cost base which, along with new orders, puts us in an improved position to achieve a profitable outcome in the 2012 financial year. The financial result of the year sees us as having an operating loss as a consequence of lower sales and unbudgeted retrenchment and related costs. The operational loss after tax for the year was $2.736m (i.e. before impairment losses and related tax effect).

The UV Guard business is primarily related to the service and maintenance of installed disinfection systems. The business continued to perform well during the year and expanded its operation to New Zealand.

With the subdued marketplace activity during the year, our ability to commercialise new technologies was compromised. In this environment, with the lack of capital expenditure and increased conservatism, the reduced appetite for new technology uptake was especially apparent. The slowdown in the rate of commercialisation led us to take a more conservative approach to the holding value of previously capitalised research and development and we have reduced it accordingly. An amount of $3.042m in previously capitalised research and development has been impaired, coupled with a deferred tax asset impairment of $408,000, resulted in a net loss after tax for the business of $5.274m for the year.

Over the year, the La Jolla Cove Investors Inc. Convertible Notes were used to support the funding of the operations of the Company. The use of the Convertible Notes and their subsequent conversion has led to a substantial increase in the total number of shares in Clean TeQ. The increased share turnover and the disappointing financial performance of the Company has led to the share price falling to an historic low. In June 2011, 10,000,000 shares at $0.05 were placed with Wasabi Energy Limited raising $500,000 which enabled the Company to repay some of the Convertible Note in cash.

The cash position of the Company decreased during the period as a result of the operating losses and working capital requirements. As of 30 June 2011, the Company has $1.347 million cash on deposit.

## STRATEGIC INITIATIVES

The success of our Company is directly linked to winning and delivering air, water and resource projects with a sustainable margin. In today's market, the margins from product delivery are under considerable cost pressure from international competitors. To improve the performance of the business we are taking a number of strategic initiatives across the business to strengthen our position as a quality and cost effective "technology supplier" and we will initiate a "technology as a service" model.

The "technology as a service" model provides the customer with a guaranteed outcome and also provides the Company with an annuity-based income stream. As technology advances, companies are looking to focus more and more on their core ability and to contract out their service needs.

# CEO's Report AS AT 30 JUNE 2011

The regulations around air and water quality continue to become more stringent and so the provision of air and water services to clients in order to meet the needs of the regulators is a growth area. Clean TeQ aims to become a leader in the provision of air and water services in our market segment in Australia and then globally. We will approach this new business opportunity with selected international companies that can provide complimentary skill sets.

## AIR DIVISION

Our Air Division is a leader in a number of air pollution related areas such as odour and volatile organic emission control. Our reputation in these areas is first-class and given price parity with our competitors, we are the preferred supplier. We understand that the Australian market is a global market and with our high value dollar, there is considerable pressure to reduce costs through the use of international procurement, especially from Asia. And so, while we have been selectively sourcing components from Asia over the last few years, we must move to a business model that leverages our in-house IP with a cost competitive Asian-based manufacturing partner to deliver the highest quality technology at the most cost completive price.

We have continued our focus on our technical strengths and have secured some large orders with a growing pipeline to follow. The introduction of a carbon tax on air emissions will provide an avenue to new sales and service opportunities for the Division.

## RESOURCES DIVISION

Our Resources Division has continued to work on several pre-feasibility studies, predominantly for uranium and gold projects. We have continued to invest in our uranium technology and applied for a new patent for the extraction of uranium from highly saline environments. We expect that this technology could be of large economic benefit in many in-situ and heap leach applications where the availability of fresh water is a major limitation. It is our current expectation that these studies and investments will lead to Clean TeQ providing our proprietary technology to companies in these sectors in the future.

The mining industry is quite conservative and new technology is seen to carry a high risk for the operator. Therefore, we will target companies who have access to ore deposits where our technology will provide significantly to an improved net value of the project. We will also target companies that have valuable resources associated with waste streams where we can employ our technology to extract value and we will search for strategic financial partners who can mitigate the risk involved in exploiting our uranium and gold technology. This is a key focus for 2012 financial year.

## WATER DIVISION

The Water Division has continued to develop the application of our Clean-iX® ion exchange technology as a stand-alone desalination process and as a pre-treatment process for reverse osmosis. The development of the Clean-iX® technology as an advanced water treatment process was accomplished with the assistance of an Australian Government Climate Ready Grant. The Grant has assisted in the design, build and operation of a 0.7MLD demonstration plant of the Clean-iX® process for the desalination of "difficult to treat" groundwater. The groundwater treated by our demonstration plant is of a similar nature to the "produced waters" found in the oil and gas industry and so the demonstration plant is an excellent reference site.

The Clean-iX® technology platform provides the base for our push into the rapidly emerging water markets associated with mining and coal seam gas production. The Clean-iX® technology removes salt from produced waters and allows their beneficial reuse. Our confidence that we have a unique and potentially highly valuable solution has been buoyed by a number of recent approaches by international companies to explore the development of commercial arrangements for the exploitation of this technology in the Australian and International coal seam gas markets.

We have also extended our intellectual property portfolio around our Clean-iX® ion exchange technology with the filing of a new patent for the application of the technology in water desalination. The challenges involved with the commercialisation of a new technology are likely to be large and demanding and our priority is to engage with appropriate partners who can assist us to overcome these challenges.

## OUTLOOK

The resurgence in contracted and pipeline projects in the first part of the 2012 financial year indicates that we will be back on track to achieve growth in sales and a profit. The marketplace will continue to be challenging as price remains a key driver in purchasing decisions. We are now in a better position to deliver the right solution at the right price as key parts of our products are now based on a competitive Asian procurement program. The re-emergence of climate initiatives will lead to greater certainty in the marketplace for environmental products and will support our business to grow into the future.

The Air Division has contracted works and the sales pipeline is very prospective. We intend to extend our product offering to include greenhouse gas abatement and heat-to-power technologies. The carbon tax provides an incentive for companies to reduce their greenhouse gas production and we are well placed to use our thermal technology as a basis for air treatment and possible power generation. We will work with other providers in the energy sector to implement this strategy.

The outlook for the Water Division is encouraging as our suite of Clean-iX® water treatment technologies provides us with an entry to the water recycling markets. The emphasis on water treatment and recycling, especially in the oil and gas, energy and mining industry sector, will see an increased market pull for water technologies. Our business model going forward is based on the formation of alliance partnerships and joint ventures with complementary businesses that will deliver uptake and commercial demonstration of our technology. We will work with financial partners to mitigate the financial risks and accelerate the penetration of the technologies into global markets. We are already in discussions with major international companies that have the complementary skill sets to provide our products and services to the market. During the year we plan to establish a water services business to complement our water products business. These initiatives are timely given the water related issues in the coal seam gas, coal and mining industries. The UV Guard business should continue to perform well with its recurrent product lines.

The Resources Division will seek opportunities for co-investment whereby we can secure a profit share in projects through the provision of our technology. The recovery of gold, silver, rare earth elements, base metals and uranium from waste and by-product streams are expected to provide business opportunities for the Company.

## FINALLY

The Directors and I would like to thank all the team at Clean TeQ for their ongoing commitment during this past year. Furthermore, I would like to express my thanks to my fellow Board members for their encouragement and constructive inputs as we strive to leverage our unique products and solutions for future growth.

Yours faithfully

**Peter Voigt**
Chief Executive Officer

# Our **Business**

Clean TeQ provides solutions for some of the world's major challenges in our natural resources (air, water and minerals).

Since 1990, Clean TeQ has invested significant funds in the development of better ways to remediate air and water, where these have been degraded by use in industrial processes. Through the development of efficient remediation processes we make possible the upgrading, recovery and reuse of these valuable resources. Our clients include large mining companies, industrial manufacturers and municipal service providers both in Australia and internationally.

Clean TeQ technologies are used to clean air and recover water and mineral resources used in their processes. Clean TeQ aims to become a global leader in the provision of remediation products and services to industry to ensure long term sustainability in the face of growing public and regulatory pressures.

Clean TeQ is a team of committed professionals with a passion to deliver solutions to the problems experienced by our clients, solutions that are both environmentally friendly and economically viable.

# What We **Believe**

Our work is underpinned by our strong conviction that air, water and minerals are finite and precious commodities that should be utilised in a sustainable manner.

We are committed to providing our industrial customers with remediation products and services to repair, restore and reuse degraded resources, resulting in both more sustainable outcomes and enhanced economic benefits.

We take a holistic perspective on our clients' processes. We view each process in its entirety, including its physical and economic constraints. This allows us to deliver a solution to not only increase recovery and reduce waste, but also to increase reuse and deliver previously unused value from existing waste streams. As a result, costs are reduced and operations are made more sustainable.

We encourage our scientists and engineers to think creatively and "outside the square".

Most industrial, manufacturing, agribusiness and mining processes use vast amounts of water and air in their processes. Consequently, such resources are often degraded and require treatment prior to discharge. Clean TeQ has an integrated approach to treatment of these discharges.

At Clean TeQ we hold the view that industry should be encouraged and supported to move from a position of being "resource hunter and gatherer" towards a preferable position of becoming a "resource cultivator". Re-use and recycling of finite resources is certainly within the interests of all stakeholders.

Now, more than ever, we need to re-assess how we can maximize the value of resources with due regard to economic and environmental sustainability.

# Our **Approach**

We look to assist our clients to maximise the economic and environmental values – clean air, clean water, and the recovery of valuable by-products. We examine problems and opportunities so as to provide holistic solutions.

Clean TeQ's diverse mix of engineers and scientists are trained to think across boundaries & disciplines. We offer impressive expertise in air purification, water and wastewater purification and resource recovery techniques.

As part of our approach we bring this diverse knowledge to bear via a process that seeks:

- To understand the purpose of the re-use, re-cycle or re-condition needed and apply the remediation need that is fit-for-purpose;
- To search for potentially valuable by-products of the remediation process that can be used to subsidise the costs of remediation;
- To assess the best approach for a given situation, and to select the most appropriate response for that situation. We will not be bound to any one technology or solution or supplier.

This approach is aimed at a focused solution, which is within the bounds of positive economic returns, and achieves low "waste" streams, maximal re-use, and processes that are both self-sustaining and self-supporting.

In searching for an optimized solution, we allow ourselves the freedom to draw on a varied "tool box" of solutions – those developed in house together with solutions sourced from our business partners worldwide.

# Our **Solutions**

CleanTeQ offers to our clients a "toolbox of commercialized technologies". A single technology or a package of technologies may be used, whichever will achieve the optimum outcome for a given situation.

- Our focus is on the remediation of air and water, and maximum extraction of metals from ores;
- We are as comfortable with innovation as we are with using proven solutions. Growth will be achieved via a balanced mix of innovation and reuse where the solution results in reduced costs and reduced environmental footprint;
- We design, manufacture, install and commission air and water purification solutions and hydrometallurgical extraction processes.

**Solutions by product area and by industry**

**WATER treatment for**
- power, gas & oil production
- mining processes
- food and beverage industries
- wastewater recycling

**AIR treatment for**
- wastewater treatment plants
- sewer transport systems
- manufacturing industries
- power, gas & oil production

**RESOURCE recovery for**
- gold & precious metals
- uranium
- rare earth elements
- base metals

# **Industries** We Serve

Clean TeQ provides product and services to industries that have a high level of resource use and/or environmental impact. Through the use of our technology and innovation we provide the means of maintaining economic & environmental sustainability.

## WATER treatment solutions and service

### MINING
- desalination of groundwater
- processing of brine solutions
- recycling of process water
- reclamation of tailings water

### OIL & GAS
- desalination of produced waters
- removal of free and dissolved hydrocarbons in produced waters
- processing of brine solutions

### WASTEWATER
- desalination of treated effluent
- removal of nutrients from treated effluent
- disinfection of treated effluent

### LANDFILL
- desalination of leachate
- removal of nutrients from leachate
- removal of heavy metals from leachate
- disinfection of leachate

### FOOD & BEVERAGE
- disinfection of water
- desalination of treated effluent

## AIR treatment solutions and service

### COAL, OIL & GAS
- destruction of methane from coal mine degassing and coal ventilation air
- production of power from the heat of destruction of methane

### WASTEWATER
- reduction of odour, volatile organics and volatile corrosive compounds in the air emissions from the plant
- reduction of odour, volatile organics and volatile corrosive compounds in the air emissions from the sewer transport system

### LANDFILL
- removal of ammonia and volatile organic compounds from the leachate
- treatment of odours from landfill

### FOOD & BEVERAGE
- removal of odour from emissions
- removal of volatile organic compounds from emissions
- recovery of product as dust from emissions

## RESOURCE solutions and service

### HYDROMETALLURGY
- extraction & purification of targeted soluble metals from leached ores
- extraction of impurities from leachates

### WATER
- desalination of groundwater
- reuse of process water
- recovery of tailings water
- extraction & purification of targeted soluble metals from waste streams

# **Technologies** We Use

Clean TeQ uses technologies that have been developed in-house along with complementary best-in-class technology provided by our global partners. We have world class expertise in the use of biological, thermal, ionic, adsorption and ultraviolet technologies to repair, remediate and recover resources.

## BIOTECHNOLOGY

### AIR

We use advanced biotechnology in the design of our biofilters and biotrickling filters to produce a simple, low cost, highly effective process for controlling odour and organic air emissions to atmosphere. Our biological air pollution control systems work by using the actual pollutants as a food or energy source for our naturally occurring bacteria. The bacteria are immobilised onto special packing material within the bioreactors and as the air moves through the bioreactor the bacteria convert the pollutants to harmless by-products. Biotechnology has taken over as the process of choice from chemical processes and its use for the control of air pollution will continue to grow as regulations around the world become more stringent.

### WATER

In a similar way to the biotechnology approach for air pollution, we use a bioreactor containing immobilised bacteria to target the destruction of pollutants in water. A good example of this process is the use of specific bacteria to clean waters of the potentially harmful compounds, ammonia and nitrate. Again, water regulations are driving the introduction of technology to remove these pollutants as a means to prevent damage to health and our fragile water environment.

## THERMAL TECHNOLOGY

### AIR

The use of heat by burning gas to destroy pollutants emitted to atmosphere is not new. The use of a process that recovers 95% of the generated heat for reuse and provides the possibility for power generation is much more in line with environmental best practice. Clean TeQ designs and manufactures regenerative thermal oxidisers that do just that - destroy pollutants, recover heat for reuse and can provide power to the grid when coupled with the appropriate "heat to energy technology". With the introduction of a carbon tax, our technology will be available to provide our customers with the opportunity to reduce the tax burden and even produce power for on-sale or for in-house consumption.

## IONIC TECHNOLOGY

### WATER & RESOURCE RECOVERY

Clean TeQ has been the leading developer of a paradigm shift in the use of ion exchange technology to the improved continuous ion exchange process. While ion exchange is not new it is generally only used in "clean water" applications and so we developed the continuous system as a new generation of ion exchange technology to capture a large unfulfilled market in the purification of "dirty waters" for reuse.

While the world was moving towards the use of membrane technology for water treatment, we believed that we had a better way and the development of our Continuous Ionic Filtration™ technology is a world-first. The way we use the CIF™ technology is revolutionary in that we filter both particles and salt from the water in a single process. The applications for our CIF™ technology are numerous and we are initially focusing on the rapidly growing water markets associated with mining and gas production (coal seam gas, shale gas). The conversion of produced waters to water with high quality and value will provide a bridge between the development of resources and the associated use of treated water for beneficial purposes.

## ADSORPTION TECHNOLOGY

### AIR

The removal of pollutants from air using activated surfaces is a well accepted practice. Clean TeQ uses activated carbon and aluminium and chemically modified versions to adsorb odorous compounds such as hydrogen sulphide (rotten eggs) and mercaptans (rotten cabbage) as well as hydrocarbons that could be odorous, hazardous or photochemical smog precursors.

### WATER

The removal of hydrocarbons from water streams is becoming more and more important as regulations change and we look to recycle our water. We have developed a very efficient adsorption technology based on the use of our macroporous non-ionic resin. The technology can remove hydrocarbons such as BTEX and PAH's down to very low levels. The use of this technology in the oil and gas industries is very prospective.

## ULTRAVIOLET TECHNOLOGY

### WATER

The use of ultraviolet technology for the disinfection of water for drinking, food processing and wastewater reuse is growing rapidly. The conventional approach to disinfection using chlorine as a disinfectant has proven to have many drawbacks including the production of harmful by-products and the lack of killing potential for parasites. Ultraviolet is also used in combination with ozone or peroxide to oxidise many organic pollutants in water by a process known as advanced oxidation. Clean TeQ's wholly owned subsidiary, UV Guard, is a substantial player in the provision of disinfection products and services in Australia and New Zealand.

# Growth **Strategy**

Clean TeQ is active in the three market segments of Air, Water and Resource Recovery.

All are potentially large markets with substantial growth prospects.

To be successful, we require partnerships with large international corporations to provide appropriate resourcing in terms of finance and people. The identification of these potential partners is high on the agenda for Clean TeQ in the 2012 year.

## Water purification

- leading technologies to recycle scarce water resources
- a large opportunity exists for the energy efficient Clean-iX® technology to recover and recycle waste water in difficult problem areas, such as coal seam gas waters. Our demonstration plant for this technology puts Clean TeQ in a potentially market leading position.

## Air purification

- leading technologies in growing markets
- Sales in this market will be driven by increasing government regulation

## Resource recovery

- Clean-iX® growth potential
- Development of the technology will be continued for uranium and gold in Australia and overseas

# Our **People**

Clean TeQ's technology progress over the past two decades is due to the passion and commitment of the highly qualified professionals employed by the business, many of whom have been with the company over the long term. These professionals, predominantly engineers and chemists, have wide experience in the areas of development, technology commercialisation, sales and project design and delivery. Further opportunities for the continuing professional development of our people will be provided by the participation of global partners in commercialization and delivery of our products.


1. Greg Toll, Executive Chairman
2. Peter Voigt, Chief Executive Officer
3. Roger Harley, Non-Executive Director
4. Matthew Lakey, General Manager (Air)
5. Bob Cleary, Non-Executive Director
6. John Carr, General Manager (Water & Mining)
7. Melanie Leydin. Chief Financial Officer and Company Secretary
8. Ross Dive, Managing Director (UV Guard)

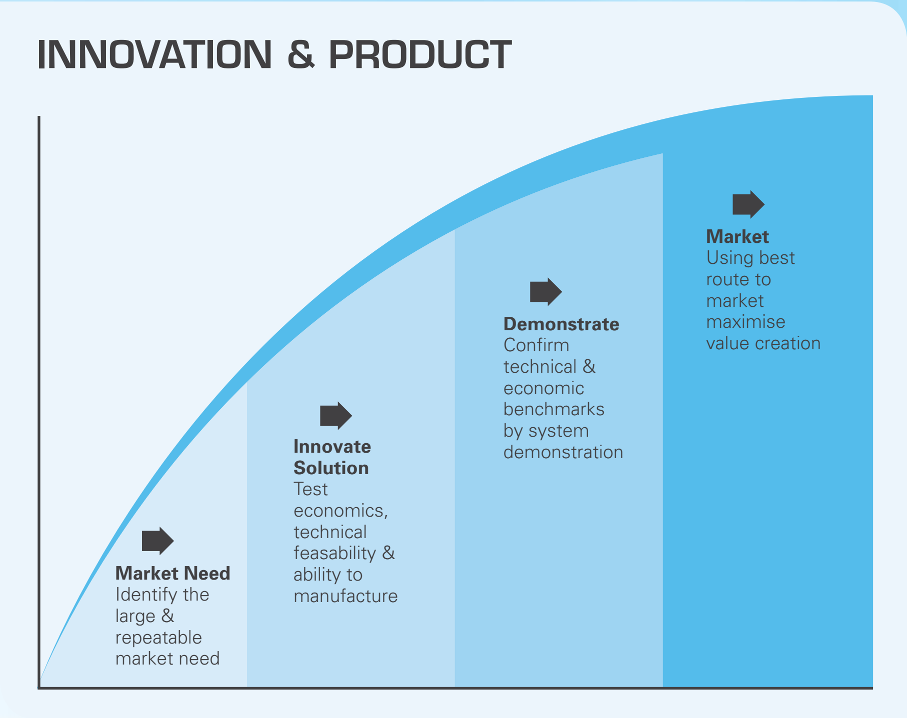
# **Innovation** and Product

Clean TeQ is committed to leadership in technologies for a sustainable future. We are convinced that our success will be directly related to:

- ongoing investment in research and development,
- ownership of the developed intellectual property and
- use of our unique skills to commercialise these developments.

Clean TeQ uses technologies that have been developed in-house as well as complementary best-in-class technology provided by our global partners. We look at emerging markets in the cleantech sectors and provide innovation to the problems to provide a better long-term solution.

Because of our expertise, innovation, flexibility and emphasis on customer service, Clean TeQ has been the supplier of choice for numerous clients. We develop cutting edge solutions to meet specific process challenges and needs. The company has been awarded numerous government grants for the specific development and /or demonstration of its new technologies.



# **Financial** Report

## FOR THE YEAR ENDED 30 JUNE 2011

Clean TeQ Holdings Limited and its controlled entities
ABN 34 127 457 916

# DIRECTORS' REPORT

**The Directors present their report together with the consolidated financial report of Clean TeQ Holdings Limited and its subsidiaries for the financial year ended 30 June 2011 and the auditor's report thereon.**

## INFORMATION ON DIRECTORS AND COMPANY SECRETARY

The qualifications, experience, special responsibilities and other directorships of each person who has been a Director of Clean TeQ Holdings Limited ("Clean TeQ") at any time during or since the end of the financial year is provided below, together with details of the Company Secretary as at the year end.

### Greg Toll

Executive Chairman and Director

Greg Toll was appointed the Chief Executive Officer of the Company in 2007 and has been with the predecessor Company since 2001. He became a Director of the Company on 10 September 2007. Greg retired as the Chief Executive Officer of the Company with effect from 2 August 2010 and was appointed Executive Chairman on 1 October 2010.

Prior to joining Clean TeQ, Greg held senior executive positions in R&D, sales and marketing with Uncle Bens', Masterfoods, Nestle and Lion Nathan.

Greg has a Bachelor of Science (Veterinary) Degree with First Class Honours from Sydney University and is a Graduate Member of the Australian Institute of Company Directors. Greg is a member of the Market Disclosure Committee.

### Peter Voigt

Executive Director and Chief Executive Officer

Peter Voigt established Clean TeQ in 1990 and was Clean TeQ's Chief Technology Officer, responsible for all research and development activities and the negotiation and management of overseas licenses. On 2 August 2010 Peter was appointed the Executive Director and Chief Executive Officer of the Company.

Peter is a biochemist, with extensive experience in product development, technology commercialisation and developing complete engineering solutions. Prior to founding Clean TeQ, Peter held product and technology development roles with Arnotts and Uncle Bens'.

Peter has a Bachelor and Masters of Applied Science (Chemistry) from the Royal Melbourne Institute of Technology. Peter became a Director of the Company on the date of its incorporation, 10 September 2007.

### Roger Harley

Non-Executive Director

Roger Harley was appointed to the Board on 1 June 2010.

Roger Harley is a founder and principal of independent corporate advisory firm, Fawkner Capital. He is also a Non-Executive Director of National Financial Solutions. Previously he worked 11 years for Deutsche Bank, and held positions including Director of Corporate Finance and Director of Equity Capital Markets. Roger Harley has had various appointments by the Commonwealth Government that related to the oversight of innovation and venture capital programs and policies. These include membership of the Pooled Development Funds Registration Board, the Industry Research and Development Board and Innovation Australia. His previous Board positions include Director of Medibank Private. Roger is Chair of the Audit Committee and a member of the Nomination and Remuneration Committee and Market Disclosure Committee.

Roger has a science degree from the University of Melbourne and is a Fellow of the Australian Institute of Company Directors.

### Bob Cleary

Non-Executive Director

Bob Cleary was appointed to the Board on 1 June 2010.

Bob Cleary was employed for 18 years by the Rio Tinto/North Ltd/Energy Resources Australia Ltd Group. His last position with that organisation was Managing Director of Energy Resources of Australia Ltd from July 1999 to January 2004. Since 2004 Bob has continued to be involved in the Australian and international resources industry through his role as a Director of a number of resources companies, as well as industry consultant. Bob is also a Non-Executive Director of Stonehenge Metals Limited, since May 2010 and Chairman of ASX-listed Crossland Uranium Mines Limited, since 2007 and a former Non-Executive Director of Natasa Mining Limited and Toledo Mining PLC. Bob is Chair of the Nomination and Remuneration Committees and a member of the Audit Committee.

Bob Cleary, B. Sc(tech) Chem Eng., graduated as a Chemical Engineer from the University of NSW.

### Jeremy Carter

Executive Director

Jeremy Carter was appointed to the Board on 10 September 2007 and retired on 2 August 2010.

Jeremy is a shareholder and has played an important role in strategy and business development within Clean TeQ. Jeremy has a long and successful track record as a strategy consultant in the mining industry including 12 years with McKinsey & Company.

Jeremy has a Bachelor of Veterinary Science, a PhD from University of Queensland and an MBA from INSEAD. Jeremy was a member of the Nomination and Remuneration Committee.

### Ralph Pliner

Chairman

Ralph Pliner was appointed Chairman of the Board on 24 September 2007 and retired on 30 September 2010.

Ralph is a Non-Executive Director of Tower Australia Group Ltd, Iroko Cardio (Australia) Pty Limited, Herzog Contracting Pty Ltd, Saipem Australia Pty Ltd (the Australian subsidiary of the international pipeline construction company, Saipem SpA), and Australian Char Pty Ltd which manufactures BBQ fuel and char in the La Trobe Valley. Ralph was the Non-Executive Chairman of Gold Link Income Plus Limited from November 2007 until 17 April 2008.

Ralph has extensive experience as a corporate and securities lawyer in the mining, resources, oil, gas, utilities and infrastructure industries. From 1983 to the end of 2004, Ralph was an International Partner of the law firm Baker & McKenzie in Sydney, practicing as a specialist corporate, securities, energy and resources lawyer. Over the past 12 years Ralph has conducted the Director responsibilities module in the Company Directors' Course in Sydney of the Australian Institute of Company Directors.Ralph holds a Bachelor of Commerce and Bachelor of Laws from Witwatersrand University in South Africa and a Master of Laws (First Class Honours) from Cambridge University, UK. Ralph was a member of the Audit, Nomination and Remuneration and Market Disclosure Committees.

### Melanie Leydin

Company Secretary and Chief Financial Officer

Melanie was appointed to the position of Company Secretary and Chief Financial Officer on 7 July 2011. Melanie is a Chartered Accountant and is a Registered Company Auditor.

She graduated from Swinburne University in 1997, became a Chartered Accountant in 1999 and since February 2000 has been the principal of chartered accounting firm, Leydin Freyer.

In the course of her practice she audits listed and unlisted public companies involved in the resources and biotechnology industry. Her practice also involves outsourced company secretarial and accounting services to public companies in the resources sector. This involves preparation of statutory financial statements, annual reports, half year reports, stock exchange announcements and quarterly ASX reporting and other statutory requirements.

Melanie has 19 years experience in the accounting profession and is a Director and Company Secretary for a number of oil and gas, junior resources and exploration entities on the Australian Stock Exchange.

### Marc Lichtenstein

Company Secretary and Chief Financial Officer

Marc was appointed to the position of Company Secretary on 10 September 2007 and resigned on 7 July 2011.

Prior to his appointment Marc held the position of Chief Financial Officer and Company Secretary with another listed public company for a period of 3 years. Prior to that, he worked as a Senior Manager in the audit and assurance division of a prominent Chartered Accounting practice. Marc has extensive finance, accounting, corporate reporting, treasury and investor relations experience.

Marc has a Bachelor of Business Degree from the Royal Melbourne Institute of Technology. He is a Member of the Institute of Chartered Accountants in Australia, the Institute of Chartered Secretaries Australia, and a Graduate Member of the Australian Institute of Company Directors.

## DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are:

| Director | Board Meeting | | Audit Committee Meeting | | Remuneration & Nomination Committee Meeting | | Market Disclosure Committee Meeting | |
|---|---|---|---|---|---|---|---|---|
| | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** |
| Ralph Pliner | 3 | 3 | 2 | 2 | 2 | 2 | 2 | 2 |
| Greg Toll | 10 | 11 | - | - | - | - | 2 | 2 |
| Peter Voigt | 11 | 11 | - | - | - | - | - | - |
| Jeremy Carter | 1 | 1 | - | - | 1 | 1 | - | - |
| Roger Harley | 11 | 11 | 5 | 5 | 2 | 2 | 2 | 2 |
| Bob Cleary | 10 | 11 | 4 | 5 | 4 | 4 | - | - |

**A** = Number of meetings attended
**B** = Number of meetings held during the time the Director held office during the year.

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Clean TeQ Holdings Limited are responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Clean TeQ Holdings Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

To ensure the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of Directors and for the operation of the Board.

The Directors are focused on fulfilling their responsibilities individually and as a Board to all of the Company stakeholders. This involves the recognition of, and a need to adopt, principles of good corporate governance. The Board supports the guidelines of "The Corporate Governance Principles and Recommendations" established by the ASX Corporate Governance Council.

Given the size and structure of the Company, the nature of its business, the stage of its development and the cost of strict and detailed compliance with all of the recommendations, the Company has adopted some modified systems, procedures and practices which it considers allow it to meet the principles of good corporate governance.

In accordance with the ASX Corporate Governance Council's recommendations, the Corporate Governance Statement must contain specific information, and also report on the Company's adoption of the Council's principles and recommendations on an exception basis, whereby disclosure is required of any recommendations that have not been adopted by the Company, together with the reasons why. The Company's corporate governance principles and policies are therefore structured with reference to the Corporate Governance Council's corporate governance principles and recommendations, which are as follows:

1. Lay solid foundations for management and oversight;
2. Structure the Board to add value;
3. Promote ethical and responsible decision making;
4. Safeguard integrity in financial reporting;
5. Make timely and balanced disclosure;
6. Respect the rights of shareholders;
7. Recognise and manage risk; and
8. Remunerate fairly and responsibly.

## 1. Lay Solid Foundations for Management and Oversight

The Board is responsible for the development of:

- strategy;
- oversight of management;
- risk management and compliance systems; and
- monitoring performance.

The Board has adopted a Board Charter the purpose of which is to promote high standards of corporate governance, clarify the role and responsibilities of the Board and enable the Board to provide strategic governance for the Group and effective management oversight. A copy of the Board Charter is available on the Company's website. The Board has established certain policies and protocols in relation to the Company's operations, some of which are summarised below.

## 2. Structure the Board to Add Value.

The current composition of the Board consists of two Executive Directors and two independent Non-Executive Directors. Currently both of the Non-Executive Directors satisfy the test of independence. Two of the remaining Directors have substantial shareholdings and are fulfilling an executive role in the Company.

Given the nature and size of the Company, its business interests and the stage of development, the Board is of the view that there is a broad mix of skills required and that given their experience each of the Directors are aware of and capable of acting in an independent manner and in the best interests of the shareholders.

The Chairman of the Board is not an independent Non-Executive Director. The roles of Chairman and Chief Executive Officer are not exercised by the same person. These roles are exercised by Greg Toll who is the Executive Chairman, whilst Peter Voigt is Chief Executive Officer.

To ensure the Board is well equipped to discharge its responsibilities, it has established guidelines for the nomination and selection of Directors and for the operation of the Board. Details of the Nomination and Remuneration Committee are provided below.

Each Director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Group's expense. The Director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation.

The Nomination and Remuneration Committee oversees the appointment and induction process for Directors and Committee members, and the selection, appointment and succession planning process of the Company's Chief Executive Officer. The Committee makes recommendations to the Board on the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the Committee in consultation with the Board determines the selection criteria based on the skills deemed necessary. The Committee identifies potential candidates. The Board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders.

The terms and conditions of the appointment and retirement of Non-Executive Directors are set out in a letter of appointment, including expectations of attendance and preparation for all Board meetings, minimum hourly commitments, appointments to other Boards, the procedures for dealing with conflicts of interest, and the availability of independent professional advice.

The Nomination and Remuneration Committee also conducts an annual review of the performance of the Chief Executive Officer and the senior executives reporting directly to him and the results are discussed at a Board meeting.

The performance of the Board and executives is reviewed on an annual basis both collectively and individually. The performance criteria takes into account each Director's and Executive's contribution to setting the direction, strategy and financial objectives of the Group, and monitoring compliance with regulatory requirements and ethical standards. During the course of the current financial year the Nomination and Remuneration Committee has reviewed the performance of all Directors and executives within the consolidated entity against their key performance indicators. Short term incentives are then awarded by the Committee in accordance with the level of performance of each executive.

The Board is responsible for determining and reviewing the remuneration and performance of the Directors and the Executive Officers of the Company and reviewing the operation of the Company's Employee Option and Share Plans. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating, and retaining executives with the skills to manage the Company's operations. Accordingly, the Board has established a Nomination and Remuneration Committee to focus on the performance of the Directors and executives within the organisation.

The Group has a formal process to educate new Directors about the nature of the business, current issues, the corporate strategy and the expectations of the Group concerning performance of Directors. Directors also have the opportunity to visit Group facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

## 3. Promote Ethical and Responsible Decision Making

The Board has adopted a code of conduct for Directors and Senior Executives which fully complies with the regulation. The purpose of the code of conduct is to:

- articulate the high standards of honest integrity, ethical and law-abiding behaviour expected of Directors and Senior Executives;
- encourage the observance of those standards to protect and promote the interests of shareholders and other stakeholders (including employees, customers, suppliers and creditors);
- guide Directors and Senior Executives as to the practices thought necessary to maintain confidence in the Group's integrity;
- set out the responsibility and accountability of Directors and Senior Executives to report and investigate any reported violations of this code or unethical or unlawful behaviour; and
- promote ethical and responsible decision-making by the Company in consideration of the reasonable expectations of its stakeholders, including shareholders, employees, customers, suppliers, creditors, consumers and the broader community in which it operates.

As the Board acts on behalf of and is accountable to the shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The Board recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity. Consequently, the Company follows the Code of Conduct established by the Board, which sets out the principles and standards with which all officers and employees are expected to comply in the performance of their respective functions.

All employees and Directors of Clean TeQ are expected to observe the highest standards of honesty, ethics, integrity and law-abiding behaviour during the course of their employment with the Company.

The standards expected include:

- compliance with Company policies, procedures and contracts;
- compliance with all reasonable and legal instructions of management; and
- to be honest and fair in dealings with all stakeholders including clients, colleagues, Company management and the general public.

Specifically, Directors and Senior Executives are expected to:

- act with integrity in the performance of their duties;
- maintain client confidentiality;
- avoid any conflicts of interest both directly and indirectly:
- exercise proper courtesy consideration and sensitivity in their dealings with clients and colleagues;
- comply with the provisions of relevant legislation and ethical requirements of their profession;
- respect the Company's ownership of all Company funds, equipment, supplies, records and property;
- maintain during employment with the Company and after termination of employment, the confidentiality of any information acquired during the course of the employment with Clean TeQ;
- not make any unauthorised statements to the media about the Company's business;
- refrain from sexual or other unlawful harassment in the workplace; and
- observe occupational health and safety rules.

Further details of the Company's Code of Conduct, including the full text of the code, can be found on the Company's website.

The Company has established a formal written Share Trading Policy which is required to be adhered to by all Directors, Senior Management and employees of the Company and its subsidiaries. Trading in the Company's shares and/or options over such shares by Directors and Executives of the Company should only occur in circumstances where the market is considered to be fully informed of the Company's activities. Directors, Executives and staff are required to discuss their intention to trade in the Company's shares with the Chairman of the Company prior to trading. The Board recognises that it is the individual responsibility of each Director and employee to carry this policy through. Furthermore, there is a clear understanding that the only appropriate time to trade is after an announcement to a fullyinformed market. Further details of the Company's Share Trading Policy, including a full copy of the policy, is available on the Company's website.

The Board recognises the legitimate interests of shareholders, employees and other stakeholders. All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

The Board recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity. Consequently the Company follows the Code of Conduct established by the Board, which sets out the principles and standards with which all officers and employees are expected to comply in the performance of their respective functions.

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has developed procedures to assist Directors to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a Director on a Board matter, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered and may not vote on the matter. Details of Director related entity transactions with the Company and the Group are set out in the notes to the financial statements.

## 4. Safeguard Integrity in Financial Reporting

In accordance with Recommendation 4.1 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the Board has delegated the responsibility for the establishment and maintenance of a framework of internal control mechanisms for the management of the Company to the Audit Committee.

The Company has had regard to the independence and expertise of each of its Directors, the level of the Company's current operations, the costs of compliance and the effectiveness of previous audits when determining the make up of its Audit Committee. The Audit Committee comprises of two Non-Executive Directors. The Company now fully complies with the recommendation in that all of the members of the Committee are currently independent Non-Executive Directors. The Chair of the Audit Committee is a financial professional with significant experience in financial matters. The Chair of the Audit Committee is not the Chairman of the Board.

The Audit Committee members during the year were:

- Roger Harley (Chairman) (appointed 23 June 2010) – Independent Non-Executive
- Ralph Pliner (appointed 24 September 2007, retired 30 September 2010) – Independent Non Executive
- Bob Cleary (appointed 23 June 2010) – Independent Non-Executive

The Audit Committee intends to meet at least 4 times per annum and is responsible for:

- reviewing the annual and half-year financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards (AASBs), and assessing whether the financial information is adequate for shareholder needs;
- assessing corporate risk assessment processes;
- assessing management processes supporting external reporting;
- establishing procedures for selecting, appointing, and if necessary, removing the external auditor;
- assessing the need for an internal audit function;
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review;

- providing advice to the Board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001;
- assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board;
- monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements; and
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

The Audit Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit plan, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results;
- review the draft annual and half-year financial report, and recommend Board approval of the financial report; and
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

The external auditors, Chief Executive Officer and Chief Financial Officer are invited to attend Audit Committee meetings at the discretion of the Committee. The external auditor meets with the Audit Committee during the course of the year without management being present.

The Audit Committee operates under a formal charter approved by the Board. The Audit Committee's charter is available on the Company's website along with information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.

The Company does not have a Compliance Committee. The Chairman, Chief Executive Officer and Company Secretary monitor the Company's compliance requirements.

In accordance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the Chief Executive Officer and the Chief Financial Officer declared in writing to the Board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the financial year ended 30 June 2011 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

## 5. Make Timely and Balanced Disclosure

The Board and Senior Management are aware of the Continuous Disclosure requirements of the ASX and have procedures in place to disclose any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities.

The Board has established a Market Disclosure Protocol which includes the establishment of a Committee to help the Board to achieve its objective to establish, implement and supervise a continuous disclosure system.

The Market Disclosure Committee consists of

- Ralph Pliner (Chairman)<br>(appointed 24 September 2007<br>and retired 30 September 2010)
- Greg Toll (Chairman)<br>(appointed 24 September 2007 and<br>appointed Chairman on 1 October 2010)
- Roger Harley<br>(appointed 23 June 2010)

The Board has appointed the Company Secretary as the Disclosure Officer of the Company. The Company Secretary is responsible for overseeing and coordinating the disclosure of information to the ASX, analysts, stockbrokers, shareholders, the media and the public. The Chief Executive Officer and Chairman are authorised to make statements and representations on the Company's behalf.

The Board provides shareholders with information using a comprehensive Market Disclosure Protocol which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website, and issuing media releases. More details of the protocol are available on the Company's website.

In summary, the Market Disclosure Protocol operates as follows:

- the Chief Executive Officer, and the Company Secretary are responsible for interpreting the Company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX. Such matters are advised to the ASX on the day they are discovered subject to approval of the Market Disclosure Committee;
- the full annual report is provided via the Company's website to all shareholders (unless a shareholder has specifically requested to receive a physical copy or not to receive the document), including relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments;
- the half-yearly report contains summarised financial information and a review of the operations of the Group during the period. The half-year reviewed financial report is lodged with the ASX, posted on the Company's website and sent to any shareholder who requests it;
- the quarterly report contains summarised financial information and a review of the operations of the Group during the period. The quarterly financial report is lodged with the ASX;
- proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders;
- all announcements made to the market, and related information (including presentations provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX;
- some media briefings are web-cast, and are placed on the Company's website; and
- the full texts of notices of meetings and associated explanatory material are placed on the Company's website.

All of the above information is made available on the Company's website within one day of public release.

The Company is committed to giving all shareholders comprehensive and equal access to information about our activities and to fulfilling its continuous disclosure requirements to the wider market.

## 6. Respect the Rights of Shareholders

The Board aims to ensure that all shareholders are informed of major developments affecting the affairs of the Company. Information is communicated to the shareholders through the annual and half year reports, disclosures made to the ASX, notices of meetings and occasional letters to shareholders where appropriate.

The auditor is invited to attend each Annual General Meeting of the Company and to be available to answer shareholder questions about the conduct of the audit, accounting policies adopted by the Company, the preparation and content of the auditor's report and the independence of the auditor in relation to the conduct of the audit. The Chairman ensures that appropriate time is allocated to the auditor at the Annual General Meeting to answer all shareholder questions relevant to the conduct of the external audit.

## 7. Recognise and Manage Risk

The Board oversees the establishment, implementation, and annual review of the Company's Risk Management System. Management has established and implemented the Risk Management System for assessing, monitoring and managing all risks, including material business risks, for the Group.

The Board has procedures in place to recognise, assess and manage risk in accordance with the Corporate Governance Principles and Recommendations. The Board takes a proactive approach to risk management. The Board is responsible for ensuring that risks and also opportunities are identified on a timely basis. All risks identified by the Board are recorded in the Company's risk register and acted upon accordingly. The Company's objectives and activities are aligned with the risks and opportunities identified. The Board believes that it is crucial for all Board members to be a part of this process and as such the Board has not established a separate Risk Management Committee.

The Chief Executive Officer and Chief Financial Officer state to the Board, in writing, that the statement given in accordance with the Corporate Governance Principles and Recommendation regarding the integrity of financial statements is founded on a system of risk management and internal compliance and control that implements the policies adopted by the Board. The statement provided by Chief Executive Officer and Chief Financial Officer includes a comment that the risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

Management provide the risk profile on a six monthly basis to the Audit Committee that outlines the material business risks to the Company. Risk reporting includes the status of risks through integrated risks management programs aimed at ensuring risks are identified, assessed and appropriately managed. Management review the risk register on a quarterly basis to ensure that all risks are identified, acted upon or being monitored.

The Audit Committee reports the status of material business risks to the Board on a six monthly basis. Further details of the Company's risk management policy and internal compliance and control system are available on the Company's website.

Each business operational unit is responsible and accountable for implementing and embedding the risk policy into the operations of its business unit.

Material business risks for the Company may arise from such matters as actions by competitors, government policy changes, economic conditions, the impact of exchange rate movements on the price of raw materials and sales, difficulties in sourcing raw materials, environment, occupational health and safety, property, financial reporting, and the purchase, development and use of information systems.

The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The Board's policy on internal control is comprehensive, details of which are available on the Company's website. It comprises the Company's internal compliance and control systems, including:

- **Operating unit controls** – Operating units confirm compliance with financial controls and procedures including information systems controls detailed in procedures manuals;
- **Functional speciality reporting** – Key areas subject to regular reporting to the Board include Environmental, Legal and Insurance matters;
- **Investment appraisal** – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Comprehensive practices have been established to ensure:

- capital expenditure and revenue commitments above a certain size obtain prior board approval;
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- business transactions are properly authorised and executed;
- the quality and integrity of personnel (refer below);
- financial reporting accuracy and compliance with the financial reporting regulatory framework.

Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue with employees and senior management. A formal succession plan is also in place to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur.

The Chief Financial Officer was appointed on 7 July 2011.

The Chief Executive Officer and the Chief Financial Officer have declared, in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Monthly actual results are reported against budgets approved by the Directors and revised forecasts for the year are prepared regularly.

Clean TeQ Holdings Limited is committed to protecting the environment and safeguarding public and employee health in all aspects of its operations. Environmental protection and safety are the responsibility of Clean TeQ Holdings Limited, its employees, its alliance partners and suppliers of goods and services. Specifically, the Company will comply with the intent and provision of all applicable laws, regulations and standards.

## 8. Remunerate Fairly and Responsibly

It is the Company's objective to provide maximum shareholder benefit from the retention of high quality Board members and Executives. The Nomination and Remuneration Committee ensures that Directors and Senior Executives are remunerated fairly and responsibly. The Nomination and Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Executive Officers and Directors of the Company. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies. Directors and Executives are remunerated with reference to market rates for comparable positions.

The Nomination and Remuneration Committee comprises:

- Bob Cleary
  (Chairman) (appointed 23 June 2010)
- Ralph Pliner
  (appointed 24 September 2007,
  retired 30 September 2010)
- Roger Harley
  (appointment on 30 September 2010)
- Jeremy Carter
  (appointed 24 September 2007,
  retired 2 August 2010)

The Board policy is that the Nomination and Remuneration Committee will comprise of at least three Non-Executive Directors the majority of which are independent. While the Company will aim to have a Nomination and Remuneration Committee that complies with the size and composition guidelines outlined above, this is not presently possible and may not always be practicable in the future given the size of the Board and the circumstances of the Group, including the nature of the Group's business.

The Chief Executive Officer, Peter Voigt, is invited to Nomination and Remuneration Committee meetings, as required, to discuss senior executives' performance and remuneration packages but does not attend meetings involving matters pertaining to him.

Executive Directors and senior management's remuneration packages include fixed, performance based and equity based components. Non-Executive Directors only receive a fixed remuneration package which is not linked to the performance of the Company.

Further details of the Nomination and Remuneration Committee's charter and policies, including those for appointing Directors and senior executives, are available on the Company's website.

## PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year were:

- providing air purification and odour elimination solutions to customers;
- the continued development and use of the Clean-iX® Technology in conjunction with other technologies, which can be used for the purification and recycling of waste water and for desalination of brackish water to produce high quality industrial water;
- the sale and development of water disinfection products; and
- the continued development and use of the Clean-iX® Technology which can be used to extract a range of resources in the mining industry including base metals, precious metals and radioactive elements.

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

## OPERATING AND FINANCIAL REVIEW

**Overview of the consolidated entity**

Clean TeQ Holdings Limited, the parent entity, was incorporated on 10 September 2007. This Company was listed on the Australian Stock Exchange on 9 November 2007.

During the course of this year the Company experienced difficult trading conditions across the Company's Divisions. Revenues were severely depressed in the markets where cash is generated through the delivery of projects. The Water Division, which receives recurrent revenue through the UV Guard business, sustained its revenue base.

The decline in project-based work appears to be a result of a market vacuum that was created by the Government stimulus package of the previous year and a very conservative and cost conscious approach to equipment purchasing by the private industry sector. While the decline was felt by the project delivery industry as a whole, the environmental sector appeared to be affected to a greater extent, with continuing uncertainty about the Governmental approach to climate change.

On entering the year the Company was structured to deliver growth based on the indicative sales pipeline at that time. With the turndown in the actual revenue, the fixed cost base of the Company exposed it to an operating loss. The Company has responded as quickly as practical to lower the fixed cost base which will roll forward into the 2012 year.

In the response to the economic conditions encountered and slower commercialisation of technology in a conservative and cost sensitive marketplace, the Company has decided to reduce the carrying value of previously capitalised research and development. This decision has resulted in an impairment loss of $3.042m. The remaining intangible research and development asset relates to IP developed for our core focus for the future, that is the water recovery and reuse sector and the extraction of uranium and gold.

The loss of the consolidated entity for the year after providing for income tax amounted to $5,274,000.

The operational loss of the consolidated entity for the year before research and development impairments of $3,042,000 and deferred tax assets not booked of $408,000 amounted to $2,737,000. This is in line with the forecast provided to the market in June.

**Review of Operations**

The Air Division revenue was a disappointing $2.4m for the year which was predominantly made up of smaller sized projects. The Air Division found itself under considerable cost pressures from Asian-manufactured products as well as having to deal with cancelled and delayed projects. On a brighter note, the sales pipeline had substantially recovered by the end of the year with new projects being awarded in June for delivery in the 2012 year.

The Resource Recovery Division generated $274,000 in revenue which was mainly associated with consultancy services for the uranium industry. The opportunities for the technology in the uranium, gold and rare earth sectors require us to embrace a joint venture or licence business model. This approach is currently being developed for implementation in the 2012 year.

The Water Division generated revenue of $3.68m with the UV Guard business providing much of that number. The development of the Continuous Ionic Filtration™ (CIF™) technology continued during the year and concluded with a successful demonstration of the process for groundwater treatment.

We are building a platform of products based on the CIF to support our push into the coal seam gas and resources market in the coming years.

In August 2010, Jeremy Carter resigned as a Director. In the same month Greg Toll stood down as CEO and was replaced by Peter Voigt. In September 2010, Ralph Pliner resigned as Chairman and was replaced by Greg Toll.

**Review of Financial Conditions**

In the period under review the consolidated entity has experienced a negative operational cash flow with a consequential loss. The negative operating cashflow is due to the slower than expected sales during the year. Over the year actions were undertaken to reduce the fixed costs of the business and the cost of goods to limit the extent of the loss. These actions will hold the consolidated entity in good stead as it enters the 2012 financial year.

**Liquidity and funding**

The operating loss position of the consolidated entity has been partially offset through the use of funds from the Convertible Note facility provided by La Jolla Cove Investors. Over the period the consolidated entity drew down $2.02m from this facility. At 30 June 2011, the consolidated entity had cash on hand of $1.347m. An amount of $827,340 is placed on fixed deposit to provide security for bank guarantees and work-in-progress. As at 30 June 2011 an amount of $546,746 was drawn down on this facility.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 30 June 2010 the Company entered into a convertible note agreement with La Jolla Cove Investors Inc. ("La Jolla") which was subject to a number of conditions being met. The Company applied for certain waivers from the ASX which were not granted. As a result the Company entered into an amended agreement with La Jolla on 28 July 2010 for a convertible note facility which comprises of funding of up to US$6.0 million in four separate US$1.5 million convertible notes, each with a duration of 3 years from the first drawdown of the relevant convertible note. During the year the Company subscribed for two US$1.5 million convertible notes from La Jolla. The notes bear interest payable to the holder at an interest rate of 4.75% per annum payable monthly on the outstanding funded and non-converted principal amount plus a 5% premium for prepayment.

The convertible notes are subject to conversion at the holders request at 80% of the 5 day VWAP prior to the conversion date or repayable in cash with a 5% premium. On 14 June 2011 the Company raised $500,000 through a placement of 10,000,000 ordinary shares at $0.05 per share.

In the opinion of the Directors there were no other significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review.

## DIVIDEND PAID, RECOMMENDED AND DECLARED

Since the incorporation of the Company and up to and including the date of this report there have been no dividends paid, declared or recommended.

## EVENTS SUBSEQUENT TO REPORTING DATE

On 11 July 2011, the Company issued 601,084 fully paid ordinary shares under the Employee Share Plan at an issue price of 3.66 cents per share.

On 15 August 2011 the Company entered into a loan agreement with Aqua Guardian Group ("AGG"), a 50% owned subsidiary of Wasabi Energy Ltd which will permit it to borrow up to $1,000,000. To fund repayment of the loan, the Company has agreed with AGG that it will undertake a non-renounceable rights issue to raise approximately $1,000,000. The rights issue will be on the basis of two new shares for every seven existing ordinary shares at the offer price of 3.70 cents per share (which is a 10% discount to the volume weighted average price of shares over the twenty trading days prior to Friday 12 August 2011). An agreement has been entered into with Wasabi Energy whereby Wasabi Energy will underwrite the issue. Full details of the rights issue will be made available in late August following the release of this financial report.

Other than the matter discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## LIKELY DEVELOPMENTS

The consolidated entity will pursue the return to profitability of its business units during the next financial year and the continued commercialisation of its intellectual property in air, water and resources divisions. This will require further investment in areas such as research and development and the potential for joint ventures to accelerate the commercialisation process.

Further confidential information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of this confidential information would be likely to result in unreasonable prejudice to the Group.

## ENVIRONMENTAL REGULATION

The Group is not subject to any specific significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of environmental requirements as they apply to the Group.

## DIRECTORS' INTERESTS

The relevant interest of each Director in the shares and options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the Directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

| | Clean TeQ Holdings Limited | |
|---|---|---|
| | Ordinary shares | Options over ordinary shares |
| Greg Toll | 8,730,348 | 390,000 |
| Peter Voigt | 19,754,887 | 390,000 |
| Roger Harley | - | - |
| Bob Cleary | - | - |

**Options granted to Directors and executives of the Company**

During or since the end of the financial year, the Company granted options over unissued ordinary shares in the Company to the following of the five most highly remunerated officers of the Company as part of their remuneration:

| | Number of options granted | Exercise price | Expiry date |
|---|---|---|---|
| EXECUTIVES | | | |
| Ross Dive | 50,000 | $0.28 | 1 July 2013 |
| Ross Dive | 50,000 | $0.31 | 1 July 2014 |
| Ross Dive | 50,000 | $0.34 | 1 July 2015 |

During the previous financial year, the Company granted options over unissued ordinary shares in the Company to the following of the five most highly remunerated officers of the Company as part of their remuneration:

| | Number of options granted | Exercise price | Expiry date |
|---|---|---|---|
| EXECUTIVES | | | |
| Marc Lichtenstein | 50,000 | $0.345 | 4 March 2013 |

**Shares issued on exercise of options**

During or since the end of the financial year, the Company has not issued ordinary shares as a result of the exercise of options.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

The Company, to the extent permitted by law, indemnifies each Director, alternate Director, or executive officer (and any person who has previously served in any such capacity) against any liability or cost incurred by the person as an officer of the Company, or a related body corporate of the Company, including but not limited to liability for costs incurred in defending proceedings in which judgment is given in favour of the person or in which the person is acquitted. The indemnity may be extended to other employees at the discretion of the Directors. Further disclosures (required under section 300 of the Corporations Act 2001) are prohibited under the terms of the contract. Furthermore, the Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of Directors' and Officers' liability and expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

## PROCEEDINGS ON BEHALF OF THE CONSOLIDATED ENTITY

No person has applied for leave of Court to bring proceedings on behalf of the Company.

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration in relation to the audit for the financial year ended 30 June 2011 is provided with this report.

## NON-AUDIT SERVICES

During the year Pitcher Partners, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, Pitcher Partners, and its related practices for audit and non-audit services provided during the year are set out below.

| | Consolidated | |
|---|---|---|
| | 2011<br>$ | 2010<br>$ |
| AUDIT SERVICES | | |
| Auditors of the Company | | |
| Pitcher Partners | | |
| Audit and review of financial reports | 123,500 | 106,500 |
| | 123,500 | 106,500 |
| OTHER SERVICES | | |
| Pitcher Partners | | |
| Other assurance services | 3,820 | 2,105 |
| General advice | 5,978 | 3,150 |
| Taxation compliance services | 22,055 | 17,890 |
| | 31,853 | 23,145 |

Other assurance services undertaken by Pitcher Partners include the review of the costs incurred and activities undertaken by the Company in relation to the Climate Ready Grant.

## REMUNERATION REPORT

**Principles of compensation – audited**

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

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group, including Directors of the Company and other executives. Key management personnel comprise the Directors of the Company and executives for the Company and the Group including the five most highly remunerated Company and consolidated entity executives.

Compensation levels for key management personnel and the secretary of the Company and key management personnel of the consolidated entity are competitively set to attract and retain appropriately qualified and experienced Directors and executives. As and when required the Nomination and Remuneration Committee has access to independent advice on the appropriateness of compensation packages of both the Company and consolidated group given trends in comparative companies and the objectives of the Company's compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the relevant segments' performance;
- the Group's performance including:
  - the Group's earnings;
  - the growth in share price and delivering constant returns on shareholder wealth; and
  - the amount of incentives within each key management person's compensation.

Compensation packages include a mix of fixed and variable compensation and short and long-term performance-based incentives.

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

**Fixed remuneration – audited**

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

Compensation levels are reviewed annually by the Nomination and Remuneration Committee through a process that considers individual, segment and overall performance of the Group. In addition, external consultants provide analysis and advice where necessary to ensure the Directors' and senior executives' compensation is competitive in the market place. An executive's compensation is also reviewed on promotion.

**Performance-linked remuneration – audited**

Performance-linked compensation includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives.

The short-term incentive ("STI") is an "at risk" bonus provided in the form of cash and bonus shares, while the long-term incentive ("LTI") is provided as options over ordinary shares of the Company under the rules of the Employee Share Option Plan. The Board did exercise discretion on the payment of bonuses and options as the plans provide for such discretion.

**Short-term incentive bonus – audited**

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

The financial performance objectives are earnings compared to budgeted amounts and "share price growth" compared to the closing price at 30 June in the corresponding previous period. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, safety and environmental performance, customer satisfaction and staff development. Financial and non-financial objectives each account for up to 50 percent of the maximum STI.

At the end of the financial year, the Nomination and Remuneration Committee assesses the actual performance of the Group, the relevant segment and individual against the KPI's set at the beginning of the financial year. A percentage of the pre-determined maximum amount is awarded depending on results. No bonus is awarded where performance falls below the minimum. A bonus is paid based on this predetermined performance. There were no bonuses or incentives paid during the 2011 financial year.

**Long-term incentive – audited**

Options are issued under the Employee Share Option Plan and it provides for key management personnel to receive options over ordinary shares for no consideration. The ability to exercise the options is conditional upon each employee serving minimum service periods. All Directors, key management personnel and employees were issued a tranche of options that vested at the time of the public listing of the Company.

The Employee Share Option Plan which was adopted on 24 September 2007 states that the total number of options on issue must not exceed 10% of the total number of issued shares in the Company. The Nomination and Remuneration Committee in conjunction with the Board determine the number of options and the terms and conditions associated with those options that are to be issued to key management personnel and employees each year. The criteria used to assess the number of options issued include Company performance, individual performance and an industry analysis of best practice. The method of assessment was chosen as it provides the Nomination and Remuneration Committee with an objective means of measuring performance against expected performance.

The Company has adopted an Employee Tax Exempt Share Plan which allows eligible employees of the Group the opportunity to become shareholders of the Company without having to pay any amount for the acquisition of the Shares. Each eligible employee is entitled to acquire the equivalent of $1,000 of shares per annum. These shares are required to be held in escrow for a three year period or until such time as eligible employees terminate their employment with the Group.

**Short-term and long-term incentive structure – audited**

The Nomination and Remuneration Committee considers that the above performance-linked compensation structure will generate the desired outcome.

In the current year the Group has not achieved its forecast earnings targets, with most segments not meeting budgeted results. This is the second year that the Group has not met its internal budgeted forecasts. The level of performance achieved during the current year has resulted in the minimum short-term incentives not being achieved, which has led to no short term incentives being paid to the key management personnel.

**Consequences of performance on shareholders wealth – audited**

In considering the consolidated entity's performance and benefits for shareholders wealth, the Nomination and Remuneration Committee have regard to the following indices in respect of the current financial year.

| | 2011 $'000's | 2010 $'000's | 2009 $'000's | 2008 $'000's |
|---|---|---|---|---|
| Net profit/(loss) attributable to equity holders of the parent | ($4,866) | $1,333 | $511 | $2,924 |
| Dividends paid* | - | - | - | $1,200 |
| Share price at year end | $0.04 | $0.28 | $0.345 | $0.325 |
| Change in share price** | ($0.24) | ($0.065) | $0.02 | ($0.175) |

*A dividend of $1,200,000 was paid by Clean TeQ Limited prior to the restructure of the Group on 24 September 2007.

**The Company issued shares via an initial public offering at 50 cents per share on 9 November 2007.

Net profit is considered as one of the financial performance targets in setting the short term incentives. Dividends and changes in share price are included in the total shareholder return calculation which is one of the performance criteria assessed for the long term incentives. The other performance criteria assessed for the long term incentives is growth in earnings per share, which again takes into account the consolidated entity's net profit.

**Other benefits**

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

**Service contracts – audited**

It is the Group's policy that service contracts for key management personnel are unlimited in term but capable of termination on 3 months notice and the Group retains the right to terminate the contract immediately, by making payment equal to 6 months' pay in lieu of notice.

The Group has entered into service contracts with each key management person that provides for the payment of benefits where the contract is terminated by the Group or the individual. The key management personnel are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

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

**Non-Executive Directors – audited**

The Constitution provides that the Non-Executive Directors may be paid or provided remuneration for their services the total amount or value of which must not exceed an aggregate maximum of $500,000 per annum or such other maximum amount determined from time to time by the Company in a general meeting. The aggregate maximum sum will be apportioned among them in such manner as the Directors in their absolute discretion determine. Non-Executive Directors fees are set based on advice from external advisors with reference to fees paid to other Non-Executive Directors of comparable companies. Directors' base fees are presently $50,000 per annum.

The Non-Executive Chairman (retired 30 September 2010) received twice the base of fee being $100,000. Following this retirement an executive Chairman was appointed and his entitlement is detailed below. The current Executive Chairman (appointed 1 October 2010) presently receives $150,000 per annum. Non-Executive Directors do not receive performance related remuneration. Directors' fees cover all main Board and Committee activities. Non-Executive Directors receive fees and do not receive bonus payments.

A Non-Executive Director may be paid fees or other amounts as the Directors determine where a Non-Executive Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director.

A Non-Executive Director is entitled to be paid travelling and other expenses properly incurred by them in attending Directors' or general meetings of the Company or otherwise in connection with the business of the Company.

No retirement benefits are to be paid to Non-Executive Directors.

The Company determines the maximum amount for remuneration, including thresholds for share-based remuneration, for Directors by resolution. Further details regarding components of Directors' and executive remuneration are provided in the notes to the financial statements.

The names and positions of each person who held the position of Director at any time during the financial year are detailed in the Directors Report under "Information on Directors and Company Secretary". The named executives in the consolidated group who received the highest remuneration for the financial year were:

| Executives | Position |
|---|---|
| Greg Toll | Executive Chairman and Director |
| Peter Voigt | Executive Director |
| Marc Lichtenstein | Company Secretary and Chief Financial Officer |
| Ross Dive | Executive Director of UV Guard Australia Pty Ltd |

There were no other executives in the consolidated group that met the definition of an executive in accordance with the Corporations Act 2001 or the Australian Accounting Standards.

### Directors' remuneration – audited

Details of the nature and amount of each major element of remuneration of each Director of the Company, each of the five named Company executives and relevant Group executives who receive the highest remuneration and other key management personnel are:

| | Short-term | | |
|---|---|---|---|
| | Salary & fees | STI Cash bonus | Non-monetary benefits |
| | $ | $(A) | $ |
| GREG TOLL | | | |
| 2011 | 178,500 | - | - |
| 2010 | 267,758 | - | - |
| PETER VOIGT | | | |
| 2011 | 186,666 | - | - |
| 2010 | 240,770 | - | - |
| ROGER HARLEY | | | |
| 2011 | 45,872 | - | - |
| 2010 | 3,823 | - | - |
| RALPH PLINER | | | |
| 2011 | 25,000 | - | - |
| 2010 | 100,000 | - | - |
| JEREMY CARTER | | | |
| 2011 | 26,400 | - | - |
| 2010 | 105,600 | - | - |
| BOB CLEARY | | | |
| 2011 | 45,872 | - | - |
| 2010 | 4,167 | - | - |
| BARRY LEWIN | | | |
| 2010 | 42,049 | - | - |
| **2011** | **508,310** | - | - |
| **2010** | **764,167** | - | - |

### Executives' remuneration – audited

| | | | |
|---|---|---|---|
| MARC LICHTENSTEIN | | | |
| 2011 | 220,000 | - | - |
| 2010 | 220,505 | - | - |
| ROSS DIVE* | | | |
| 2011 | 135,962 | - | - |
| 2010 | 111,085 | - | - |
| **2011** | **355,962** | - | - |
| **2010** | **331,590** | - | - |

Roger Harley and Bob Cleary became Directors of the Company on 1 June 2010, Barry Lewin retired on 25 May 2010, Jeremy Carter retired on 2 August 2010, Ralph Pliner retired on 30 September 2010 and Greg Toll was appointed as Executive Chairman on 1 October 2010. As a result remuneration for these Directors is for part of the period only.

| Post employment Superannuation benefits | Other long term benefits | Termination benefits | Share based payments Options | Shares | TOTAL |
|---|---|---|---|---|---|
| $ | $ | $ | $ (B) | $ (C) | $ |
| | | | | | |
| 16,065 | - | - | - | 1,000 | 195,565 |
| 23,760 | - | - | 980 | 1,000 | 293,498 |
| | | | | | |
| 16,800 | - | - | - | 1,000 | 204,466 |
| 21,669 | - | - | 980 | 1,000 | 264,419 |
| | | | | | |
| 4,128 | - | - | - | - | 50,000 |
| 344 | - | - | - | - | 4,167 |
| | | | | | |
| - | - | - | - | - | 25,000 |
| - | - | - | 327 | - | 100,327 |
| | | | | | |
| 2,376 | - | - | | - | 28,776 |
| 9,504 | - | - | 392 | - | 115,496 |
| | | | | | |
| 4,128 | - | - | - | - | 50,000 |
| - | | - | - | - | 4,167 |
| | | | | | |
| 3,784 | - | - | 163 | | 45,996 |
| **43,497** | - | - | - | **2,000** | **553,807** |
| **59,061** | - | - | **2,842** | **2,000** | **828,070** |
| | | | | | |
| | | | | | |
| 19,800 | - | - | - | 1,000 | 240,800 |
| 19,297 | - | - | 1,002 | 1,000 | 241,804 |
| | | | | | |
| 12,237 | - | - | 4,218 | - | 152,417 |
| 9,997 | - | - | - | - | 121,082 |
| **32,037** | - | - | **4,218** | **1,000** | **393,217** |
| **29,294** | - | - | **1,002** | **1,000** | **362,886** |

*Ross Dive is Executive Director of the company's 100% owned subsidiary, UV Guard Australia Pty Ltd.

(A) The short term incentive bonus is for performance during the respective financial year using the criteria set out earlier in the Remuneration Report. For each of 2010 and 2011 there were no performance bonuses paid.

(B) The options have been valued by adopting the Black Scholes valuation model and are allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account. Refer to note below for further details.

(C) The shares are issued in accordance with the terms and conditions of the Clean TeQ Holdings Limited Employee Tax Exempt Share Plan. Eligible Employees are able to acquire $1,000 of shares in the Company on an annual basis.

There were no other key management personnel employed by the company or the Group in the 2011 financial year.

In accordance with the remuneration policy described above, options granted as remuneration are subject to continuing service with the company. Options granted as remuneration are valued at grant date in accordance with AASB 2 *Share-based Payments*. No options previously granted to key management personnel as remuneration have lapsed or been exercised during the year.

| | Proportion of remuneration package performance related | Proportion of remuneration package performance related | Value of options as proportion of remuneration | Value of options as proportion of remuneration |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| DIRECTORS | | | | |
| Ralph Pliner | - | - | - | 0.3% |
| Greg Toll | - | 17.0% | - | 0.3% |
| Peter Voigt | - | 18.9% | - | 0.4% |
| Jeremy Carter | - | 17.4% | - | 0.3% |
| Roger Harley | - | - | - | - |
| Bob Cleary | - | - | - | - |
| Barry Lewin | - | - | - | 0.4% |
| EXECUTIVES | | | | |
| Marc Lichtenstein | - | 16.5% | - | 0.4% |
| Ross Dive | - | - | 2.75% | - |

**Details of performance related remuneration – audited**

Details of the consolidated entity's policy in relation to the proportion of remuneration that is performance related is discussed above.

**Analysis of bonuses included in remuneration – audited**

There were no bonuses included in remuneration during the current financial year.

**Equity instruments – audited**

During the course of the 2008 financial year the Company introduced a share option plan for employees and Directors of Clean TeQ ("the Plan"). All options refer to options over ordinary shares of Clean TeQ Holdings Limited, which are exercisable on a one-for-one basis under the Employee Share Option Plan. The broad details of the Plan are set out below:

(a) Under the Plan, eligible persons will be offered, and if accepted, granted, options entitling the holder to subscribe for Shares. The options may be subject to vesting and exercise restrictions which will be determined by the Board at the time of issue. If a person no longer qualifies for the Plan, they will have three months to exercise any options which are capable of being exercised (except in limited circumstances).

(b) It is intended that the exercise price will generally be at or in excess of the prevailing volume weighted average sale price of Shares traded on ASX in the period immediately prior to the date of offer of the options.

(c) The Board has at its discretion the ability to waive any conditions under certain limited circumstances and/or to allow options to be exercised and Shares acquired or transferred for monetary consideration equivalent to their value. The options are not otherwise transferable once granted.

(d) The determination of eligibility to participate is at the absolute discretion of the Board. The Board may also determine at its absolute discretion the applicable performance criteria to be achieved and the time period in which those criteria must be satisfied. While not limiting the Board's discretion, the performance criteria are generally focused on the key financial and other performance measures set by the Company.

(e) It is expected that options allocated to a participant under the Plan will not be exercisable by the employee until the performance criteria have been satisfactorily achieved, subject to the overriding discretion of the Board to waive or modify vesting conditions.

(f) While the terms of options will adjust for corporate reorganizations and the like, holders of options will have to exercise their options to participate in capital raisings by the Company.

It is intended that the maximum number of options to be offered to a participant under the Plan will be reasonable in terms of the participant's total remuneration and the performance of the Company. While the Plan permits annual grants of options, it is not anticipated that the Company will make offers of options to Directors and key management personnel each year.

In the 2009 financial year the Company introduced the Employee Tax Exempt Share Plan which allows employees who have completed the necessary length of service with the Group to acquire up to $1,000 of Clean TeQ Holdings Limited shares in a 12 month period up to 30 June. A 3 year trading lock is placed on the shares while the employee remains employed with the Group. If an employee ceases employment with the Group the trading lock on the shares is lifted. The shares are provided at no cost to the employees.

**Options and rights over equity instruments granted as compensation – audited**

Details on options over ordinary shares in the Company that were granted as compensation to each key management person and Directors during the current and previous reporting periods and details on options that vested during that current reporting period are as follows:

| | Number of options granted during 2011 | Grant Date | Fair value per option at grant ($) | Exercise price per option ($) | Expiry Date | Number of options vested during 2011 |
|---|---|---|---|---|---|---|
| EXECUTIVES | | | | | | |
| Ross Dive | 50,000 | 1 July 2010 | $0.04 | $0.28 | 1 July 2013 | 50,000 |
| Ross Dive | 50,000 | 1 July 2010 | $0.03 | $0.31 | 1 July 2014 | - |
| Ross Dive | 50,000 | 1 July 2010 | $0.03 | $0.34 | 1 July 2015 | - |

| | Number of options granted during 2010 | Grant Date | Fair value per option at grant ($) | Exercise price per option ($) | Expiry Date | Number of options vested during 2010 |
|---|---|---|---|---|---|---|
| EXECUTIVES | | | | | | |
| Marc Lichtenstein | 50,000 | 4 March 2010 | 0.0037 | 0.345 | 4 March 2013 | 50,000 |

No other options have been granted during the 2011 financial year or since the end of the current financial year to Directors or key management personnel. The options were provided at no cost to the recipients. All options expire on the earlier of their expiry date or termination of the individual's employment. In addition to a continuing employment service condition, there are no other performance hurdles that are required to be met for the options to be exercised.

**Modification of terms of equity-settled share based payment transactions – audited**

No other terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

During the reporting period there were 552,500 options issued as compensation to any Directors or key management personnel that have lapsed or been forfeited.

**Exercise of options granted as compensation – audited**

During the reporting period there were no shares issued as a result of the exercise of options previously granted as compensation.

**Analysis of options and rights over equity instruments granted as compensation – audited**

Details of vesting profile of the options granted as remuneration to each key management person and Director of the consolidated entity and each of the five named Company executives and Group executives are detailed below.

| | Number of options granted | Grant Date | % vested in year | % forfeited in year | Financial years in which grant vests |
|---|---|---|---|---|---|
| EXECUTIVES | | | | | |
| Ross Dive | 50,000 | 1 July 2010 | 100 | - | 1 July 2010 |
| Ross Dive | 50,000 | 1 July 2010 | - | - | 1 July 2011 |
| Ross Dive | 50,000 | 1 July 2010 | - | - | 1 July 2012 |
| Marc Lichtenstein | 50,000 | 4 March 2010 | 100 | - | 1 July 2009 |

**Analysis of movements in options – audited**

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person, and each of the five named Company executives and Group executives are detailed below.

| | Value of Options | | |
|---|---|---|---|
| | Granted in Year $ (A) | Exercised in year $ (B) | Lapsed in year $ (C) |
| Greg Toll | - | - | 20,280 |
| Peter Voigt | - | - | 20,280 |
| Ralph Pliner | - | - | - |
| Barry Lewin | - | - | - |
| Ross Dive | 1,281 | - | - |
| Jeremy Carter | - | - | - |
| Marc Lichtenstein | - | - | 16,900 |

(A) The value of options granted in the year is the fair value of the options calculated at grant date using the Black Scholes option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period. No other options have been issued to any key management person or each of the five named Company executives and Group executives in the Group during the current financial year.

(B) The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

(C) The value of the options that lapsed during the year represents the value foregone calculated using a Black Scholes option-pricing model.

**Unissued shares under options**

At the date of this report unissued ordinary shares of the Company under options are:

| Expiry date | Exercise price | Number of shares | Expiry date | Exercise price | Number of shares |
|---|---|---|---|---|---|
| 9 November 2011 | $0.55 | 697,500 | 1 April 2014 | $0.23 | 10,000 |
| 9 November 2012 | $0.60 | 697,500 | 20 April 2012 | $0.20 | 20,000 |
| 24 April 2012 | $0.37 | 10,000 | 20 April 2013 | $0.22 | 20,000 |
| 24 April 2013 | $0.41 | 10,000 | 20 April 2014 | $0.24 | 20,000 |
| 20 May 2012 | $0.45 | 10,000 | 22 June 2012 | $0.33 | 10,000 |
| 20 May 2013 | $0.50 | 10,000 | 22 June 2013 | $0.36 | 10,000 |
| 1 July 2012 | $0.36 | 75,000 | 22 June 2014 | $0.40 | 10,000 |
| 18 August 2011 | $0.38 | 10,000 | 5 March 2013 | $0.60 | 582,011 |
| 18 August 2012 | $0.42 | 10,000 | 30 June 2014 | $0.08 | 1,000,000 |
| 18 August 2013 | $0.46 | 10,000 | 30 June 2015 | $0.25 | 500,000 |
| 16 March 2012 | $0.17 | 50,000 | 30 June 2016 | $0.40 | 500,000 |
| 16 March 2013 | $0.18 | 50,000 | 1 July 2013 | $0.28 | 115,000 |
| 16 March 2014 | $0.20 | 50,000 | 1 July 2014 | $0.31 | 115,000 |
| 1 April 2012 | $0.19 | 10,000 | 1 July 2015 | $0.34 | 115,000 |
| 1 April 2013 | $0.21 | 10,000 | 4 March 2013 | $0.345 | 190,000 |
| | | | **Total outstanding options** | | **4,927,011** |

All options expire on the earlier of their expiry date or termination of the employee's employment. In addition, the ability to exercise the options is not conditional on the Group achieving certain performance hurdles. These options do not entitle the holder to participate in any share issue of the Company or any other body corporate. Since the end of the financial year, the Company has not issued any ordinary shares as a result of the exercise of options.

## ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made and signed in accordance with a resolution of the Directors.

**Peter Voigt**
Director

Melbourne

24 August 2011

# AUDITOR'S INDEPENDENCE DECLARATION

PITCHER PARTNERS
An independent Victorian Partnership
ABN 27 975 255 196

**To the Directors of Clean TeQ Holdings Limited.**

In relation to the independent audit for the year ended 30 June 2011, to the best of my knowledge and belief there have been:

(i) No contraventions of the auditor independence requirements of the Corporations Act 2001

(ii) No contraventions of any applicable code of professional conduct

**S D WHITCHURCH**
Partner

24 August 2011

**PITCHER PARTNERS**
Melbourne

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2011

| | Note | Consolidated | |
|---|---|---|---|
| | | 2011 $'000 | 2010 $'000 |
| Revenue | 2 | 6,665 | 17,116 |
| Changes in inventories of finished goods | | 27 | 663 |
| Raw materials used and other direct costs | | (4,241) | (10,389) |
| Employee benefits expense | 3 | (3,498) | (3,322) |
| Depreciation, amortisation and impairment expenses | 3 | (3,798) | (759) |
| Administration expenses | | (998) | (843) |
| Marketing expenses | | (169) | (281) |
| Acquisition costs | | (196) | (99) |
| Finance costs | 3 | (61) | (36) |
| Other expenses | | (669) | (239) |
| **(Loss) / profit before income tax expenses** | | (6,938) | 1,811 |
| Income tax benefit / (expense) | 4 | 1,664 | (477) |
| **(Loss) / profit from continuing operations** | | (5,274) | 1,334 |
| **(Loss) / profit for the year** | | (5,274) | 1,334 |
| **Total comprehensive (expense) /income for the year** | | (5,274) | 1,334 |
| **Total comprehensive (expense) / income attributable to owners of the Company** | | **(5,274)** | **1,334** |
| | | | |
| (Loss)/earnings per share | | | |
| Basic (cents per share) | 20 | (7.80) | 2.32 |
| Diluted (cents per share) | 20 | (7.80) | 2.18 |

The accompanying notes form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2011

| | Note | Consolidated | |
|---|---|---|---|
| | | 2011<br>$'000 | 2010<br>$'000 |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 6 | 1,347 | 3,355 |
| Trade and other receivables | 7 | 1,195 | 2,531 |
| Inventories | 8 | 1,725 | 2,089 |
| **Total current assets** | | 4,267 | 7,975 |
| NON-CURRENT ASSETS | | | |
| Deferred tax assets | 9 | 2,596 | 1,582 |
| Plant and equipment | 10 | 333 | 423 |
| Intangible assets | 11 | 9,905 | 12,235 |
| **Total non-current assets** | | 12,834 | 14,240 |
| **Total assets** | | 17,101 | 22,215 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 12 | 1,109 | 2,762 |
| Loans and borrowings | 13 | 727 | 28 |
| Employee benefits | 14 | 301 | 356 |
| Other liabilities | 15 | 1,016 | 1,070 |
| **Total current liabilities** | | 3,153 | 4,216 |
| NON-CURRENT LIABILITIES | | | |
| Loans and borrowings | 13 | 63 | 93 |
| Deferred tax liabilities | 9 | 2,596 | 3,246 |
| Employee benefits | 14 | 37 | 29 |
| **Total non-current liabilities** | | 2,696 | 3,368 |
| **Total liabilities** | | 5,849 | 7,584 |
| **Net assets** | | **11,252** | **14,631** |
| EQUITY | | | |
| Issued capital | 16 | 10,059 | 8,175 |
| Retained earnings | 17 | 1,111 | 6,256 |
| Share option reserve | 18 | 82 | 200 |
| **Total equity** | | **11,252** | **14,631** |

The accompanying notes form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2011

| | Note | Consolidated | |
|---|---|---|---|
| | | 2011 $'000 | 2010 $'000 |
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 8,944 | 17,804 |
| Payments to suppliers and employees | | (12,080) | (16,274) |
| Interest received | | 92 | 112 |
| Borrowing costs paid | | (61) | (36) |
| Taxes paid | | (16) | (62) |
| **Net cash (used in) provided by operating activities** | 19(a) | (3,121) | 1,544 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of plant and equipment | | 1 | 15 |
| Acquisition of plant and equipment | 10 | (12) | (300) |
| Investment in subsidiaries net of cash acquired | 22 | - | (255) |
| Development expenditure | 11 | (1,332) | (3,166) |
| Acquisition of other intangibles | 11 | (35) | (305) |
| **Net cash used in investing activities** | | (1,378) | (4,011) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Proceeds from the issue of share capital | 16 | 500 | 552 |
| Proceeds from issue of convertible notes | | 2,220 | - |
| Repayments of convertible notes | | (200) | - |
| Payment of finance lease | | (5) | (5) |
| (Payment to) / proceeds from hire purchases | | (24) | 79 |
| **Net cash provided by financing activities** | | 2,491 | 626 |
| **Net decrease in cash and cash equivalents** | | **(2,008)** | **(1,841)** |
| Cash and cash equivalents at beginning of year | | 3,355 | 5,196 |
| **Cash and cash equivalents at end of year** | 19(b) | **1,347** | **3,355** |

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The accompanying notes form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2011

| | Note | Issued Capital | Retained earnings | Share Options Reserve | Total |
|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 |
| Balance at 1 July 2009 | | 7,502 | 4,922 | 187 | 12,611 |
| **Transactions with owners in their capacity as owners** | | | | | |
| Shares issued | 16 | 571 | - | - | 571 |
| Issue of ordinary shares related to business combination | 16 | 100 | - | - | 100 |
| Share based payments | 18 | - | - | 13 | 13 |
| Share options exercised | 16 | 2 | - | - | 2 |
| | | 673 | - | 13 | 686 |
| Profit for the year | | - | 1,334 | - | 1,334 |
| **Total comprehensive income for the year** | | - | 1,334 | - | 1,334 |
| **Balance at 30 June 2010** | | **8,175** | **6,256** | **200** | **14,631** |
| | | | | | |
| Balance at 1 July 2010 | | 8,175 | 6,256 | 200 | 14,631 |
| **Transactions with owners in their capacity as owners** | | | | | |
| Shares issued | 16 | 500 | - | - | 500 |
| Issue of ordinary shares related to business combination | 16 | 94 | - | - | 94 |
| Issue of ordinary shares related to convertible notes | 16 | 1,270 | - | - | 1,270 |
| Share based payments | 16 & 18 | 20 | - | 11 | 31 |
| | | 1,884 | - | 11 | 1,895 |
| Loss for the year | 17 | - | (5,274) | - | (5,274) |
| **Total comprehensive loss for the year** | | - | (5,274) | - | (5,274) |
| Options lapsed during the year | 18 | - | 129 | (129) | - |
| **Balance at 30 June 2011** | | **10,059** | **1,111** | **82** | **11,252** |

The accompanying notes form part of these financial statements.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Clean TeQ Holdings Limited (the "Company") is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the financial year ended 30 June 2011 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in associates and jointly controlled entities.

The financial statements were approved by the Board of Directors on 24 August 2011.

### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial report complies with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

### (b) Basis of Presentation

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the entire Group.

The financial report has been prepared on an accruals basis and is based on historical cost convention except for certain assets and liabilities which are stated at fair value as described in the accounting policies.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by all entities in the consolidated entity.

### (c) Going Concern

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

The consolidated entity reported a net loss after tax of $5,274,000 (2010: $1,334,000 profit).

The operational loss of the consolidated entity for the year before research and development impairments of $3,042,000 and deferred tax assets not booked of $408,000 amounted to $2,737,000. This is in line with the forecast provided to the market in June. The net (cash outflows from operating activities was $3,121,000 (2010: $1,544,000 cash inflow).

The working capital position as at 30 June 2011 of the consolidated entity results in an excess of Current Assets over Current Liabilities of $1,114,000 (2010: $3,759,000). The cash balance as at 30 June 2011 was $1,347,000 (2010: $3,355,000).

During the year and particularly in the second half of the year the following key initiatives or events have taken place to support the going concern basis of accounting for the consolidated entity:

- During the second half of the year, the consolidated entity reduced its overhead expenditure and costs of goods to limit the extent of the current year losses and cash outflows incurred by the Company and with a view to ensuring the Company will be in a position to benefit from improved trading conditions expected for the 2012 financial year.

  For the half year ended 31 December 2010 the net loss before tax, depreciation, amortisation and impairment losses was $1,890,000 and for the 6 months ended to 30 June 2011 was $1,250,000.
- Over the last two months the consolidated entity has been awarded contracts and agreed projects with revenue in excess of $4 million to be delivered in the 2012 financial year and has further trading and tender opportunities expected to lead to significant future sales.
- The consolidated entity's trading forecasts have been prepared based on its reduced overhead structure, known contracted sales and expected future sales opportunities. Combined with the continuing profitable UV Guard business the Directors believe the Company will be successful in achieving its future trading forecasts and consequently return to a profitable and cash flow positive level of operations.
- On 15 August 2011 the Company announced that it had entered in to a short term loan agreement with Aqua Guardian Group ("AGG"), a 50% owned subsidiary of Wasabi Energy, which will permit the Company to borrow up to $1,000,000. The primary purpose of the loan facility is to enable the Company to repay (in preference to converting) the outstanding principal and interest due on the convertible note currently held by La Jolla Cove Investors Inc. The convertible loan debt at 30 June 2011 is $697,000.

  It was also announced that the Company has agreed with AGG that it will undertake a fully underwritten non-renounceable rights issue to raise approximately $1,000,000 before costs. These funds will then be used by the Company firstly to repay the loan to AGG and then for working capital needs.

At the date of this report the Directors consider the going concern basis of accounting is appropriate for the consolidated entity based on the factors outlined above.

### (d) Basis of Consolidation

#### Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the consolidated entity.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

#### Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

#### Business Combinations

The consolidated entity has adopted revised AASB 3 *Business Combinations* (2008) and amended AASB 127 *Consolidated and Separate Financial Statements* (2008) for business combinations occurring in the financial year starting 1 July 2009. All business combinations occurring on or after 1 July 2009 are only accounted for by applying the acquisition method. The change in accounting policy is applied prospectively and had no material impact on earnings per share.

The consolidated entity has applied the acquisition method for the business combination disclosed in Note 22.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Measuring goodwill

The consolidated entity measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the consolidated entity. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination. If a business combination results in the termination of pre-existing relationships between the consolidated entity and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

### Transaction costs

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

### (e) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### Sale of Goods and Services

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

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

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

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

#### Interest

Interest revenue is recognised on a proportional basis taking into account the effective yield applicable to the financial assets.

#### Technology licensing income

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

#### Sale of non-current assets

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

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

### Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the consolidated entity will comply with the conditions associated with the grant. In some instances government grants relating to specific research and development projects are recognised as a deduction in arriving at the carrying value of the asset. Grants that compensate the consolidated entity for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the consolidated entity for the cost of an asset are recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

## (f) Expenses

### Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

### Finance lease payments

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### Financing costs

Financing costs comprise interest payable on borrowings calculated using the effective interest method, fees and charges attached to financing facilities. Borrowing costs are expensed as incurred and included in financing costs.

The interest expense components of finance lease payments are recognised in the income statement using the effective interest method.

## (g) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

## (h) Income tax

The income tax expense comprises current and deferred tax. The income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Tax consolidation

The Company and its wholly-owned Australian resident entities are part of a tax consolidated group. The head entity within the tax-consolidated group is Clean TeQ Holdings Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any differences between these amounts are recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

### Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivables/(payables) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

### (i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term bills atcall deposits and cash deposits restricted by guarantees with a maturity less than 3 months. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### (j) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy (p)).

### (k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### (l) Work in Progress

Work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the consolidated entity's contract activities.

Work in progress is presented as part of inventory in the statement of financial position. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the statement of financial position.

### (m) Plant and equipment

#### Owned assets

Items of plant and equipment are measured at cost less accumulated depreciation (see below) and accumulated impairment losses (see accounting policy (p)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. Where parts of an item of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognised net within "other income" in profit or loss.

#### Leased assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and the leased assets are not recognised on the consolidated entity's statement of financial position.

#### Subsequent costs

The consolidated entity recognises in the carrying amount of an item of plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Depreciation

The depreciable amount of all fixed assets including capitalised leased assets are depreciated on both a straight line and a diminishing value basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives in the current and comparative periods are as follows:

| | | |
|---|---|---|
| Factory equipment | 2½ – 20 years | Diminishing value/straight line |
| Office furniture and equipment | 2½ – 20 years | Diminishing value/straight line |
| Capitalised leased equipment | 7 – 8 years | Diminishing value |
| Motor vehicle | 5 – 6 years | Diminishing value |

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually. When changes are made adjustments are reflected prospectively in current and future periods only.

### (n) Intangible assets

#### Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the consolidated entity intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

#### Other intangible assets

Other intangible assets that are acquired by the consolidated entity, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Goodwill is measured at cost less accumulated impairment losses.

#### Subsequent expenditure

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

#### Amortisation

Amortisation is calculated over the cost of the asset less its residual value. Intangible assets other than capitalised development costs and goodwill are amortised from the date they are available for use. Capitalised development costs are amortised from the date they are commercialised. Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. In some instances specific capitalised development costs for material contracts are amortised over the expected earnings from the contract.

The estimated useful lives in the current and comparative periods are as follows:

| | |
|---|---|
| Capitalised development cost | 3 – 5 years |
| Patents | 20 years |

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

### (o) Investments

#### Investment in subsidiaries

Investments in unlisted shares of subsidiaries are carried in the Company's financial statements at the lower of cost and recoverable amount.

### (p) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in circumstances relevant to determining the associated cash flows of the asset.. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (q) Trade and other payables

Trade and other payables are stated at their fair value at inception.

Trade payables are non-interest bearing and are normally settled on 30-day terms.

### (r) Interest bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost.

### (s) Share capital

#### Ordinary share capital

Ordinary shares are classified as equity. Transaction costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

#### Dividends

Dividends are recognised as a liability in the period in which they are declared.

### (t) Employee benefits

#### Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the National Government bonds at the balance date which have maturity dates approximating to the terms of the consolidated entity's obligations.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Wages, salaries, annual leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as cars and free or subsidised goods and services, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

### Share-based payment transactions

The Company's share option programme allows consolidated entity employees to acquire shares in the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due to the employee ceasing employment with the consolidated entity.

The Company's tax exempt share plan allows consolidated entity employees to acquire shares in the Company. The fair value of shares granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at share issue date.

The fair value of options granted to employees is recognised by the subsidiary, the employing entity and the corresponding increase in equity through the Share option reserve is recognised by the Company.

### (u) Provisions

A provision is recognised in the statement of financial position when the consolidated entity has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### (v) Segment reporting

The consolidated entity determines and presents operating segments based on the information that internally is provided to the CEO, who is the consolidated entity's chief operating decision maker.

An operating segment is a component of the consolidated entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the consolidated entity's other components. All operating segments' operating results are regularly reviewed by the consolidated entity's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire plant and equipment and intangible assets other than goodwill.

### (w) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

### (x) Critical Accounting Estimates and Judgements

Certain accounting estimates include assumptions concerning the future, which, by definition, will seldom represent actual results. Estimates and assumptions based on future events have a significant inherent risk, and where future events are not as anticipated there could be a material impact on the carrying amounts of the assets and liabilities discussed below:

#### Impairment of goodwill

Goodwill is allocated to cash generating units (CGU's) according to applicable business operations. The recoverable amount of a CGU is based on value-in-use calculations. These calculations are based on current financial forecasts and projected cash flows approved by management covering a period not exceeding five years. Management's determination of cash flow projections are based on past performance and its expectation for the future.

#### Impairment of non-financial assets other than goodwill

All assets are assessed for impairment at each reporting date by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the consolidated entity. Impairment triggers include declining product or manufacturing performance, technology changes, adverse changes in the economic or political environment or future product expectations. If an indicator of impairment exists the recoverable amount of the asset is determined.

#### Income tax

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

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

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report:

- *AASB 2009-12 Amendments to Australian Accounting Standards*

  These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, which have no major impact on the requirements of the amended pronouncements. The main amendment is to AASB 8 'Operating Segments' and requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The adoption of these amendments from 1 July 2011 will not have a material impact on the company.

- *AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9*

  This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). The company will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the company.

- *AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

  These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments are a consequence of the annual improvements project and make numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The adoption of these amendments from 1 July 2011 will not have a material impact on the company.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

- *AASB 2010-5 Amendments to Australian Accounting Standards*

  These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board. The adoption of these amendments from 1 July 2011 will not have a material impact on the company.

- *AASB 124 Related Party Disclosures (December 2009)*

  This revised standard is applicable to annual reporting periods beginning on or after 1 January 2011. This revised standard simplifies the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition.

- *AASB 1054 Australian Additional Disclosures*

  This Standard is applicable to annual reporting periods beginning on or after 1 July 2011. The standard sets out the Australian-specific disclosures, which are in addition to International Financial Reporting Standards, for entities that have adopted Australian Accounting Standards. The adoption of these amendments from 1 July 2011 will not have a material impact on the company.

- *AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement*

  These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel (KMP). The adoption of these amendments from 1 July 2013 will remove the duplication of relating to individual KMP in the notes to the financial statements and the Directors Report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the company.

- *AASB 2011-5 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation and AASB 2011-6 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements*

  AASB 2011-5 is applicable to annual reporting periods beginning on or after 1 July 2011 and AASB 2011-6 on or after 1 July 2013. These amendments extend relief from consolidation, the equity method and proportionate consolidation where the ultimate or intermediate parent applies not-for-profit Aus paragraphs in Australian IFRSs as adopted in Australia, or Australian Accounting Standards – Reduced Disclosure Requirements (RDR). The adoption of these amendments from 1 July 2011 and 1 July 2013 respectively will not have impact on the company.

## NOTE 2: REVENUE

| | Consolidated | |
|---|---|---|
| | 2011<br>$'000 | 2010<br>$'000 |
| Sale of goods and services | 6,420 | 15,527 |
| Interest received | 92 | 112 |
| Licence revenue | - | 1,314 |
| Other revenue | 153 | 163 |
| **Total revenue** | **6,665** | **17,116** |

## NOTE 3: PROFIT/(LOSS) FROM CONTINUING OPERATIONS

| | Consolidated | |
|---|---|---|
| | 2011<br>$'000 | 2010<br>$'000 |
| Profit from continuing operations before income tax expense has been determined after: | | |
| EXPENSES: | | |
| Cost of Sales | 4,214 | 9,726 |
| Finance costs | | |
| • external | 61 | 36 |
| **Total finance costs** | 61 | 36 |
| Depreciation of non-current assets | | |
| • factory equipment | 35 | 4 |
| • office equipment and furniture | 43 | 60 |
| • motor vehicles | 21 | 20 |
| • capitalised leased assets | 2 | 3 |
| **Total depreciation** | 101 | 87 |
| Amortisation of non current assets: | | |
| • capitalised development costs | 490 | 641 |
| • other intangibles assets | 165 | 31 |
| **Total amortisation** | 655 | 672 |
| Impairment of non current assets | | |
| • capitalised development costs | 3,042 | - |
| **Total impairment loss** | 3,042 | - |
| **Total depreciation, amortisation and impairment** | **3,798** | **759** |
| Employee benefit expenses: | | |
| • wages and salaries | 3,043 | 2,513 |
| • employee entitlements expense including movements in provision for employee entitlements | 74 | 79 |
| • superannuation | 238 | 215 |
| • equity settled share based payments | 31 | 34 |
| • other costs | 112 | 481 |
| | **3,498** | **3,322** |
| Rental expense on operating leases | | |
| • minimum lease payments | 250 | 168 |

## NOTE 4: INCOME TAX

| | Consolidated | |
|---|---|---|
| | **2011 $'000** | **2010 $'000** |
| (A) RECOGNISED IN THE INCOME STATEMENT COMPONENTS OF TAX EXPENSE: | | |
| Current tax expense/(benefit) | - | - |
| Deferred tax | (1,664) | 477 |
| Over provision for prior year | - | - |
| Total income tax expenses/(benefits) in income statement | **(1,664)** | **477** |
| (B) NUMERICAL RECONCILIATION BETWEEN TAX EXPENSE AND PRE-TAX NET PROFIT | | |
| (Loss) / Profit before tax | (6,938) | 1,811 |
| Income tax (benefit)/expense using the domestic corporation tax rate of 30% (2010: 30%) | (2,081) | 543 |
| Increase in income tax due to: | | |
| • Non-deductible expenses | 72 | 51 |
| • Tax losses not brought to account | 443 | - |
| Decrease in income tax due to: | | |
| • Concessional R&D deduction | (97) | (115) |
| • Other deduction | (1) | (2) |
| • Income tax (benefit) / expense on pre-tax net profit | **(1,664)** | **477** |
| (C) DEFERRED INCOME TAX RELATED TO ITEMS CREDITED/(DEBITED) DIRECTLY TO EQUITY | | |
| Tax savings on equity raising cost | (74) | (75) |

## NOTE 5: DIVIDENDS

No dividends are paid or proposed for ordinary shares during the current and previous financial year. No dividends have been proposed since the end of the current financial year.

**Dividend franking account**

| | Consolidated | |
|---|---|---|
| | **2011 $'000** | **2010 $'000** |
| 30 per cent franking credits available to shareholders of Clean TeQ Holdings Limited for subsequent financial years | 572 | 557 |

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

**(a)** franking credits that will arise from the payment of the current tax liabilities;

**(b)** franking debits that will arise from the payment of dividends recognised as a liability at the year-end;

**(c)** franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and

**(d)** franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated group has not assumed the benefit of franking credits in the current financial year $572,300 (2010: $556,579).

## NOTE 6: CASH AND CASH EQUIVALENTS

| | Consolidated | |
|---|---|---|
| | **2011 $'000** | **2010 $'000** |
| Cash at bank | 520 | 1,679 |
| Cash on deposit | 280 | 269 |
| Cash on deposit used as security for bank guarantees | 547 | 1,407 |
| | **1,347** | **3,355** |

The effective interest rate on short-term bank deposits at 30 June 2011 was 5.37% (2010:4.47%). These deposits have an average maturity of 180 days. An amount of $827,340 (2010:$1,676,000) is held on a short term deposit as security for any guarantees or short-term credit requirements of the Group. Refer to Note 19(d) for details of the used and unused bank guarantee facility.

## NOTE 7: TRADE AND OTHER RECEIVABLES

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| CURRENT | | |
| Trade debtors | 1,110 | 2,442 |
| Other debtors | 85 | 89 |
| | **1,195** | **2,531** |

## NOTE 8: INVENTORIES

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| Raw materials at net realisable value | 430 | 475 |
| Work in progress | 527 | 873 |
| Finished goods at cost | 768 | 741 |
| | **1,725** | **2,089** |

The balance of raw materials at 30 June 2011 includes $598,217 (2010: $608,013) cost of grape skin extract. During the 2007 financial year management has determined that the net realisable value of these raw materials be written down to $299,108. At 30 June 2011 management has determined that $299,108 is still an appropriate net realisable value of the raw materials.

## NOTE 9: DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 |
| CONSOLIDATED | | | | | | |
| Acquisition cost | 2 | 3 | - | - | 2 | 3 |
| Unearned interest | - | - | (3) | (5) | (3) | (5) |
| Intangible assets | - | - | (2,569) | (3,229) | (2,569) | (3,229) |
| Employee benefits | 100 | 118 | - | - | 100 | 118 |
| Capital raising costs | 75 | 149 | - | - | 75 | 149 |
| Software development costs | 3 | - | - | - | 3 | |
| Deferred income | 239 | 234 | - | - | 239 | 234 |
| Unused tax losses | 2,176 | 1,078 | - | - | 2,176 | 1,078 |
| Unrealised exchange gain | - | - | (24) | (12) | (24) | (12) |
| Unrealised exchange losses | 1 | - | - | - | 1 | |
| Net tax assets/(liabilities) | **2,596** | **1,582** | **(2,596)** | **(3,246)** | **-** | **(1,664)** |

## NOTE 10: PLANT AND EQUIPMENT

| | | | | | Consolidated |
|---|---|---|---|---|---|
| | Factory equipment | Office furniture and equipment | Motor vehicles | Capitalised leased equipment | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| COST | | | | | |
| Balance at 1 July 2009 | 29 | 280 | 53 | 21 | 383 |
| Acquisitions | 167 | 31 | 102 | - | 300 |
| Acquisitions through business combinations | - | 4 | - | - | 4 |
| Disposal | - | (4) | (24) | - | (28) |
| Reclassification | (1) | 1 | - | - | - |
| Balance at 30 June 2010 | 195 | 312 | 131 | 21 | 659 |
| Balance at 1 July 2010 | 195 | 312 | 131 | 21 | 659 |
| Acquisitions | 7 | 5 | - | - | 12 |
| Disposal | - | (1) | - | - | (1) |
| Reclassification | (4) | 4 | - | - | - |
| Balance at 30 June 2011 | 198 | 320 | 131 | 21 | 670 |
| DEPRECIATION | | | | | |
| Balance at 1 July 2009 | 9 | 138 | 14 | 3 | 164 |
| Depreciation for the year | 4 | 60 | 20 | 3 | 87 |
| Disposal | - | (1) | (14) | - | (15) |
| Reclassification | (1) | 1 | - | - | - |
| Balance at 30 June 2010 | 12 | 198 | 20 | 6 | 236 |
| Balance at 1 July 2010 | 12 | 198 | 20 | 6 | 236 |
| Depreciation for the year | 35 | 43 | 21 | 2 | 101 |
| Disposal | - | - | - | - | - |
| Reclassification | (3) | 3 | - | - | - |
| Balance at 30 June 2011 | 44 | 244 | 41 | 8 | 337 |
| CARRYING AMOUNTS | | | | | |
| At 30 June 2010 | 183 | 114 | 111 | 15 | 423 |
| At 30 June 2011 | **154** | **76** | **90** | **13** | **333** |

## NOTE 11: INTANGIBLE ASSETS

| | | | | | Consolidated |
|---|---|---|---|---|---|
| | Capitalised Development Costs | Licenses | Goodwill | Patents and Trade marks | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| COST | | | | | |
| Balance at 1 July 2009 | 10,692 | 121 | - | 559 | 11,372 |
| Internally developed | 3,166 | - | - | - | 3,166 |
| Reclassification to inventory | (72) | - | - | - | (72) |
| Acquisitions through business combinations | - | - | 405 | - | 405 |
| Other acquisitions | - | 399 | - | 84 | 483 |
| Balance at 30 June 2010 | 13,786 | 520 | 405 | 643 | 15,354 |
| Balance at 1 July 2010 | 13,786 | 520 | 405 | 643 | 15,354 |
| Internally developed | 1,332 | - | - | - | 1,332 |
| Other acquisitions | - | - | - | 35 | 35 |
| Balance at 30 June 2011 | 15,118 | 520 | 405 | 678 | 16,721 |
| AMORTISATION | | | | | |
| Balance at 1 July 2009 | 2,381 | - | - | 66 | 2,447 |
| Amortisation for the year | 641 | - | - | 31 | 672 |
| Balance at 30 June 2010 | 3,022 | - | - | 97 | 3,119 |
| Balance at 1 July 2010 | 3,022 | - | - | 97 | 3,119 |
| Amortisation for the year | 490 | 133 | - | 32 | 655 |
| Impairment loss for the year | 3,042 | - | - | - | 3,042 |
| Balance at 30 June 2011 | 6,554 | 133 | - | 129 | 6,816 |
| CARRYING AMOUNTS | | | | | |
| At 30 June 2010 | 10,764 | 520 | 405 | 546 | 12,235 |
| **At 30 June 2011** | **8,564** | **387** | **405** | **549** | **9,905** |

Development costs that relate to the pre-commercialisation of a product have not been amortised. To the extent that revenue is derived from development costs and commercialisation has been reached, amortisation has been recognised.

The Capitalised Development Costs are reviewed on a six monthly basis to ensure that the projects will give rise to future economic benefits for the Group. If any project is unlikely to give rise to a future economic benefit it is expensed and written off immediately.

As part of the annual impairment testing the Board reviewed the subdued marketplace activity during the year and noted that the Group's ability to commercialise new technologies was compromised and as such there was a slowdown in the rate of commercialisation. The Board decided to take a more conservative approach to the holding value of previously capitalised research and development and have reduced it accordingly. An amount of $3.042m in previously capitalised research and development has been impaired across all business segments.

The Clean-iX® Water Recycling project is material to the financial statements. This project has capitalised development costs to date of $2,274,602 (2010: $1,676,749). The capitalised development costs associated with the use of the Clean-iX® technology as a pre-treatment to reverse osmosis project has a cost to date of $1,849,080 (2010:$1,773,649) is also material to the financial statements. The capitalised development costs associated with the use of the Clean –iX® technology in the uranium resource recovery process of $2,486,317 (2010: $2,326,722) and the similar separation technology used for gold extraction & purification of $910,481 (2010: $740,642) are material capitalised development costs. These projects have not been commercialised to date and accordingly have not begun to be amortised at 30 June 2011. No other projects are deemed to be significant to the financial statements.

## NOTE 12: TRADE AND OTHER PAYABLES

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| CURRENT | | |
| Unsecured liabilities | | |
| Trade creditors | 561 | 1,781 |
| Sundry creditors and accruals | 548 | 981 |
| | **1,109** | **2,762** |

The Company has entered into a Deed of Cross Guarantee with certain subsidiaries as described in Note 33. Under the terms of the Deed, the Company has guaranteed the repayment of all current and future creditors in the event any of the entities party to the Deed are wound up. Details of the consolidated financial position of the Company and subsidiaries party to the Deed are set out in Note 33.

## NOTE 13: LOANS AND BORROWINGS

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| CURRENT | | |
| Secured liabilities | | |
| Finance lease liability | 5 | 6 |
| Hire purchase liability | 25 | 22 |
| Convertible notes | 697 | - |
| | **727** | **28** |
| NON-CURRENT | | |
| Secured liabilities | | |
| Finance lease liability | - | 5 |
| Hire purchase liability | 63 | 88 |
| | **63** | **93** |

## NOTE 13: LOANS AND BORROWINGS CONTINUED

**Convertible Notes**

During the period the Company subscribed for two convertible notes in accordance with the Securities Purchase Agreement executed by Clean TeQ and La Jolla Cove Investors Inc. ("La Jolla") on 30 June 2010 (as amended). Under that agreement, Clean TeQ agreed to issue, and La Jolla agreed to acquire, up to 4 Notes, each with an issue price (or face value) of US$1.5 million (to raise up to US$6 million). The outstanding balance of the convertible notes drawn down and unconverted are subject to interest of 4.75% per annum. Shareholders approved the issue of the first Note to La Jolla on 7 September 2010 and the issue of the second note on 28 February 2011. During the year the first note was fully drawn and an amount of US$1,500,000 was received. The convertible note is subject to conversion at the holders request at 80% of the 5 day VWAP prior to the conversion date or repayable in cash with a 5% premium. During the year the following conversions took place on the first note:

| Date | Convertible Note Value AUD | Share Issue Price | Number of Ordinary Shares Issued |
|---|---|---|---|
| 26 October 2010 | $55,000 | 15 cents | 366,178 |
| 8 November 2010 | $50,000 | 11.5 cents | 433,276 |
| 22 November 2010 | $75,000 | 10.4 cents | 719,770 |
| 13 December 2010 | $55,000 | 6.6 cents | 838,415 |
| 21 December 2010 | $150,000 | 7.6 cents | 1,976,285 |
| 29 December 2010 | $100,000 | 7.5 cents | 1,326,260 |
| 10 January 2011 | $150,000 | 6.5 cents | 2,325,581 |
| 31 January 2011 | $75,000 | 5.9 cents | 1,273,345 |
| 14 February 2011 | $100,000 | 5.1 cents | 1,949,318 |
| 9 March 2011 | $50,000 | 3.5 cents | 1,436,782 |
| 25 March 2011 | $65,000 | 3.4 cents | 1,940,299 |
| 6 April 2011 | $50,000 | 3.1 cents | 1,592,357 |
| 18 April 2011 | $75,000 | 2.9 cents | 2,586,207 |
| 10 May 2011 | $50,000 | 2.4 cents | 2,057,613 |
| 18 May 2011 | $50,000 | 2.4 cents | 2,127,660 |
| 30 May 2011 | $50,000 | 2.4 cents | 2,127,660 |
| 6 June 2011 | $70,000 | 2.4 cents | 2,892,562 |

During the year the following cash repayments took place on the first note:

| Date | Convertible Note Value AUD | Repayment Amount AUD |
|---|---|---|
| 15 June 2011 | $100,000 | $108,470 |
| 22 June 2011 | $100,000 | $108,990 |

On 22 June 2011 the Company paid the outstanding balance of the first note. The total interest paid on the first note was $18,956.

During the year an amount of US$750,000 was received from the second note and at 30 June 2011 the unconverted balance was US$750,000. The convertible note is subject to conversion at the holders request at 80% of the 5 day VWAP prior to the conversion date or repayable in cash with a 5% premium.

### Finance Leases

During the current and comparative financial year the consolidated entity did not enter into any new finance leases. The existing finance lease expires within 1 year. The interest rate for this finance leases is 10.05%. At the conclusion of the lease period the consolidated entity has the ability to acquire the equipment at the residual value.

### Hire Purchases

During the current financial year the consolidated entity did not enter into any new hire purchases. During the comparative financial year the consolidated entity has entered into two hire purchases expiring within 4 years. The interest rates for the hire purchases vary between 9.5% to 10.2%.

## NOTE 14: EMPLOYEE BENEFITS

| | Consolidated | |
|---|---|---|
| | **2011 $'000** | **2010 $'000** |
| CURRENT | | |
| Employee benefits | | |
| Liability for long service leave | 153 | 154 |
| Liability for annual leave | 148 | 202 |
| | **301** | **356** |
| NON-CURRENT | | |
| Employee benefits | | |
| Liability for long service leave | 37 | 29 |
| Aggregate employee benefits liability | 338 | 385 |
| Employees at year end | **23** | **37** |

## NOTE 15: OTHER LIABILITIES

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| CURRENT | | |
| Deferred income | **1,016** | **1,070** |

The deferred income balance at 30 June 2011 consists of $85,277 (2010: $158,020) which relates to Air Pollution Control sales contracts and $134,434 (2010: $132,413) for Water Pollution Control sales contracts. Income had been received for projects that were incomplete at the end of the financial year. Commonwealth government grant money received associated with the Climate Ready project of $795,893 (2010: $779,250) has also been recognised as deferred income. Until such time as the related capitalised research and development is commercialised, the grant money will then be recognised through the profit and loss over the useful life of the asset.

## NOTE 16: ISSUED CAPITAL

| | Note | Consolidated | |
|---|---|---|---|
| | | 2011 $'000 | 2010 $'000 |
| 97,078,465 (2010:58,702,827) fully paid ordinary shares | 16(a) | **10,059** | **8,175** |
| **(a) Ordinary shares** | | | |
| At the beginning of reporting period | | 8,175 | 7,502 |
| Shares issued during the year: | | | |
| • Shares issued as part of the employee share scheme 71,420 (2010:65,835) shares | | 20 | 21 |
| • Shares issued as part of the business combination 334,650 (2010:333,890) shares | | 94 | 100 |
| • Shares issued as a result of exercising employee options nil (2010:10,000) shares | | - | 2 |
| • Shares issued as a result of conversion of convertible notes 27,969,568 (2010:nil) shares | | 1,270 | - |
| • Shares issued to an institutional investor via a private placement 10,000,000 (2010:1,746,032) shares | | 500 | 550 |
| At reporting date | | **10,059** | **8,175** |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and receive the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

The Company does not have authorised capital or par value in respect of its shares.

**(b) Options**

(i) For information relating to share options issued to employees during the financial year, refer to Note 18.

## NOTE 17: RETAINED EARNINGS

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| Retained profits at the beginning of the financial year | 6,256 | 4,922 |
| Net (loss) / profit attributable to members of the entity | (5,274) | 1,334 |
| Options lapsed during the year transferred from reserves | 129 | - |
| Retained profits at reporting date | **1,111** | **6,256** |

## NOTE 18: OPTION RESERVE AND SHARE BASED PAYMENTS

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| Balance at the beginning of the financial year | 200 | 187 |
| Current year provision | 11 | 13 |
| Options lapsed during the year transferred to retained earnings | (129) | - |
| Balance at the reporting date | **82** | **200** |

On 24 September 2007 the Company introduced a share option plan for employees, Directors and service providers of Clean TeQ ("the Plan"). The Plan entitles key management personnel, service providers and employees to purchase shares in the Company. The Company agreed to initially offer 3,081,000 options under the Plan which was issued immediately prior to the listing of the Company on the Australian Stock Exchange on 9 November 2007. The initial grant of options was issued in three equal tranches as follows:

(a) each option in the first tranche has an exercise price of $0.50 and will be capable of exercise at any time prior to the third anniversary of the issue date;

(b) each option in the second tranche has an exercise price of $0.55 and will be capable of exercise at any time in the period from the first anniversary of the issue date to the fourth anniversary of the issue date; and

(c) each option in the third tranche has an exercise price of $0.60 and will be capable of exercise at any time from the second anniversary of the issue date to the fifth anniversary of the issue date.

The first tranche of options detailed above in (a) expired on 7 November 2010.

No other conditions attach to the exercise of the options which are the subject of this initial grant. During the period 1 July 2010 to 30 June 2011 a further 510,000 (2010: 760,000) options were issued to new employees who had completed 6 months continuous service with the Group. The terms and conditions associated with the issue of these options was the same as those of the initial options granted other than the exercise price of the options which are 28 cents for the first tranche, 31 cents for the second tranche and 34 cents for the third tranche.

On 30 June 2011 2,000,000 options were issued to some existing employees based on their performance. The terms and conditions associated with the issue of these options was the same as those of the initial options granted other than 1,000,000 of these options were issued at a strike price of 8 cents, 500,000 options issues at a strike price of 25 cents and 500,000 options issued at a strike price of 40 cents.

In the prior year 60,000 and 450,000 options were issued on 1 January 2010 and 11 April 2010 respectively in accordance with the same terms and conditions of the initial options granted at the date of listing.

## NOTE 18: OPTION RESERVE AND SHARE BASED PAYMENTS CONTINUED

On 4 March 2010 250,000 options were issued to some existing employees based on their performance. The terms and conditions associated with the issue of these options was the same as those of the initial options granted other than these options were issued at a strike price equal to the closing share price on 30 June 2009 of 34.5 cents. The closing share price on the issue date was 26.5 cents. The options will be capable of exercise at any time in the period from the issue date to the third anniversary of the issue date.

On 5 March 2010 582,011 options were issued as part of the share issue on a 1 for 3 basis. The terms and conditions associated with the issue of these options was the same as those of the initial options granted other than these options were issued at a strike price equal to 60 cents. The closing share price on the issue date was 31.5 cents. The options will be capable of exercise at any time in the period from the issue date to the third anniversary of the issue date.

Since the initial issue of options and to the date of this report 2,551,000 options have lapsed as a result of employees ceasing their employment with the Group and electing not to exercise their options, or options that have expired unexercised. During the financial year ended 30 June 2011, 1,126,500 (2010: 371,000) options have lapsed as a result of employees ceasing their employment with the Group and electing not to exercise their options and 717,500 options expired unexercised.

The number and weighted average exercise prices of share options are as follows:

| | Weighted average exercise price | | Number of options | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Outstanding at beginning of the year | $0.49 | $0.50 | 4,741,011 | 3,780,000 |
| Forfeited during the period | $0.50 | $0.42 | (1,126,500) | (371,000) |
| Exercised during the period | - | $0.19 | - | (10,000) |
| Granted during the period | $0.22 | $0.46 | 2,510,000 | 1,342,011 |
| Expired during the period | $0.50 | - | (717,500) | - |
| Outstanding at year end | $0.37 | $0.49 | 5,407,011 | 4,741,011 |
| **Exercisable at year end** | **$0.39** | **$0.51** | **4,007,011** | **4,276,011** |

The options outstanding at 30 June 2011 have an exercise price in the range of $0.08 to $0.60 (2010: $0.17 to $0.60) and a weighted average contractual life of 2 years (2010: 2 years).

The following factors and assumptions were used in determining the fair value of options on grant date during the current financial year:

| Grant Date | Expiry Date | Fair Value Per Option | Exercise Price | Price of Shares on Grant Date | Estimated Volatility | Risk Free Interest Rate | Dividend Yield |
|---|---|---|---|---|---|---|---|
| 1 July 2010 | 1 July 2013 | 4 cents | $0.28 | $0.26 | 20% | 4.75% | - |
| 1 July 2011 | 1 July 2014 | 3 cents | $0.31 | $0.26 | 20% | 4.75% | - |
| 1 July 2012 | 1 July 2015 | 3 cents | $0.34 | $0.26 | 20% | 4.75% | - |
| 30 June 2011 | 30 June 2014 | .04 cents | $0.08 | $0.04 | 20% | 4.75% | - |
| 30 June 2012 | 30 June 2015 | 0 cents | $0.25 | $0.04 | 20% | 4.75% | - |
| 30 June 2013 | 30 June 2016 | 0 cents | $0.40 | $0.04 | 20% | 4.75% | - |

The risk free interest rate has increased over the period as new options were granted to employees after they had met the employment service eligibility criteria to be granted options. The risk free interest rate is 4.75% (2010: 4.5%) for options granted during the 2011 financial year. The estimated volatility for new options granted during the period has increased to 20%. All other factors and assumptions have remained constant during the current financial year in comparison to prior years.

## NOTE 19: CASH FLOW INFORMATION

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| **(a) Reconciliation of the net (loss) /profit after tax to the net cash flows from operations** | | |
| Net (loss) / profit after income tax | (5,274) | 1,334 |
| Non-Cash Items: | | |
| • Depreciation of non-current assets | 101 | 87 |
| • Amortisation of non-current assets | 655 | 672 |
| • Impairment of non-current assets | 3,042 | - |
| • Share based payments | 31 | 34 |
| • Unrealised exchange gain | (52) | - |
| • Profit on sale of non-current assets | - | (2) |
| • Licence fee recognised in other creditors | - | (178) |
| Changes in assets and liabilities: | | |
| • Decrease /(Increase) in trade and other receivables | 1,336 | (992) |
| • Decrease /(Increase) in inventory | 364 | (442) |
| • Decrease /(Increase) in trade and other creditors | (1,559) | 381 |
| • Increase in deferred tax assets | (1,014) | (261) |
| • Decrease /(Increase) in deferred revenue | (54) | 46 |
| • (Decrease) /Increase in deferred tax liabilities | (650) | 739 |
| • (Decrease) /Increase in employee entitlements | (47) | 79 |
| Net assets increase due to acquisition | - | 47 |
| Net cash (used in)/providing by operating activities | **(3,121)** | **1,544** |
| **(b) Reconciliation of Cash** | | |
| Cash balance comprises: | | |
| • Cash at bank | 520 | 1,679 |
| • Cash on deposit | 280 | 269 |
| • Cash on deposit used as security for bank guarantees | 547 | 1,407- |
| | **1,347** | **3,355** |

## NOTE 19: CASH FLOW INFORMATION CONTINUED

### (c) Non cash Financing and Investing Activities

During the current year, the Company undertook the following non cash transactions:

(i) Investment in controlled entities totalling $93,702 (2010: $100,000) settled by the issue of parent entity shares.

(ii) During the year the Company issued 27,969,568 (2010: nil) ordinary shares at a value of $1,270,000 as a result of the partial conversion of the Company's convertible notes.

### (d) Financing facilities

At 30 June 2011 the Group has $827,340 (2010:$1,676,000) of various debt facilities with its principle banker. An amount of $827,340 (2010:$1,676,000) is maintained on an interest bearing deposit as security for this facility which is classified as deposits on call. At balance date an amount of $546,746 (2010:$1,407,370) was provided as guarantees for work in progress at 30 June 2011. The balance being $280,594 (2010:$268,630) of this facility remained unused at year end.

At 30 June 2011 the Group has approved finance lease facilities of $92,817 (2010:$120,579) in place for equipment leases. An amount of $92,817 was drawn down under this facility at 30 June 2011 (2010: $120,579).

At 30 June 2011 the Group had a convertible note facility approved by shareholders on 28 February 2011. The facility of US$1.5 million is detailed in Note 13. As at 30 June 2011 the Group had drawn US$750,000 against this facility and US$750,000 remained unused at year end.

## NOTE 20: EARNINGS/(LOSS) PER SHARE

| | Consolidated | |
|---|---|---|
| | **2011 $'000** | **2010 $'000** |
| **(a) Reconciliation of Earnings/(loss) to Net Profit or Loss** | | |
| Net (loss) / profit after tax | (5,274) | 1,334 |
| Earnings/(loss) used in the calculation of basic earnings per share | (5,274) | 1,334 |
| Earnings/(loss) used in the calculation of dilutive earnings per share | (5,274) | 1,334 |
| **(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic earnings per share** | 67,634,350 | 57,446,059 |
| Weighted average number of options outstanding | - | 3,997,362 |
| Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive earnings per share | 67,634,350 | 61,443,421 |

### (c) Classification of Securities

The options have been classified as potential ordinary shares and are included in the determination of diluted earnings per share, except where the consolidated entity has generated a loss.

## NOTE 21: COMMITMENTS & CONTINGENCIES

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| **(i) Operating lease (non-cancellable)** | | |
| Minimum lease payments | | |
| • Less than one year | 148 | 143 |
| • Between one and five years | 461 | 609 |
| | **609** | **752** |

The property lease is a non-cancellable lease with a five year term, with rent payable monthly in advance. Rental provisions within the lease arrangement require that the minimum lease payments shall be increased by 3.5% per annum and building outgoings by 3% per annum.

An option exists to renew the lease at the end of the five year term for an additional term of five years. The lease allows for subletting of all lease areas with the Landlord's consent. The current lease term commenced on 20 June 2010 and ends on 19 June 2015.

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| **(ii) Finance leases** | | |
| Minimum lease payments | | |
| • Less than one year | 6 | 6 |
| • Between one and five years | - | 6 |
| | 6 | 12 |
| Less future finance charges | (1) | (1) |
| Total Lease Liability | **5** | **11** |

During the current and comparative financial year the consolidated entity has not entered into any new finance leases. The existing finance lease expires within 1 year. The interest rate for the finance lease is 10.05%. At the conclusion of the lease period the consolidated entity has the ability to acquire the equipment at the residual value.

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| **(iii) Hire purchases** | | |
| Minimum hire purchase payments | | |
| • Less than one year | 32 | 32 |
| • Between one and five years | 69 | 101 |
| | 101 | 133 |
| Less future finance charges | (13) | (23) |
| Total Hire Purchase Liability | **88** | **110** |

## NOTE 21: COMMITMENTS & CONTINGENCIES CONTINUED

During the current financial year the consolidated entity has not entered into any hire purchases.

During the comparative financial year the Group has entered into three hire purchases expiring within 4 years. The interest rate for the hire purchases varies from 9.5% to 10.2%.

**(a) Contingent liabilities**

The consolidated entity has no known contingent liabilities at the date of this report.

## NOTE 22: ACQUISITION AND DISPOSAL OF SUBSIDIARIES

During the financial year ended 30 June 2010 the Company entered into an agreement with UV-Guard Australia Pty Ltd ("UV-Guard") to acquire all of the shares in this Company. The acquisition has been settled by the issue of 333,890 Clean TeQ ordinary shares at an issue price of $0.2995 per share and $350,000 paid in cash.

The Company agreed to pay the acquiree additional consideration of $100,000 in each of the 2010 and 2011 financial years plus or minus an adjustment if the acquiree's gross profits exceed or does not achieve a predetermined level. Based on the performance of UV-Guard as at 31 December 2009, $100,000 of the additional consideration was expected to become payable and thus was included in the consideration at the acquisition date. As a result of UV-Guard exceeding its performance targets for the financial year ending 30 June 2010 additional consideration of $87,402 was also payable. This amount of $87,402 was expensed in the profit and loss in the period ended 30 June 2010. As a result of UV-Guard Australia Pty Ltd exceeding its performance targets for the financial year ending 30 June 2011 additional consideration of $187,808 will become due and payable within 14 days of the 30 June 2011 audited financial report being completed. This amount has been expensed in the profit and loss.

UV-Guard is a Sydney based Australian company that specialises in the design, sale and distribution of ultra violet disinfection products that are used in the water and wastewater industries. The goodwill from the acquisition is attributable mainly to the skills and technical talent of the acquired business's work force and the synergies expected to be achieved from integrating the acquiree into the Group's existing water business.

The consolidated entity incurred acquisition related costs of $7,400 during the comparative financial year relating to external legal fees and due diligence costs. These legal fees and due diligence costs have been included in other expenses in the consolidated entity's consolidated statement of comprehensive income.

**Acquisitions**

| Name | Date acquired | Consolidated entity's interest | Consideration | Contribution to consolidated net profit/(loss) |
|---|---|---|---|---|
| | | | | 2011 |
| | | | $'000 | $'000 |
| UV-Guard Australia Pty Ltd | 1 July 2009 | 100% | $550 | $312 (2010: $434) |

**Effect of Acquisitions**

The following is the fair value of the net assets of UV-Guard acquired by Clean TeQ in accordance with AASB 3; Business Combinations:

| | Fair Values |
|---|---|
| | **2010** **$'000** |
| Property plant & equipment | 4 |
| Inventories | 230 |
| Trade and other receivables | 222 |
| Cash and cash equivalents | 95 |
| Deferred tax assets | 4 |
| Trade and other payables | (256) |
| Provisions | (66) |
| Deferred Income | (10) |
| Loans and borrowings | (78) |
| Net identifiable assets and liabilities | 145 |
| Goodwill on acquisition | 405 |
| | 550 |
| Consideration paid in cash | 350 |
| Consideration paid via share issue | 100 |
| Contingent consideration (2010) | 100 |
| Total acquisition cost | **550** |

Fair values and the carrying amount of all the assets and liabilities acquired during the financial year ended 30 June 2010 are identical.

All of the shares of UV-Guard New Zealand Limited were obtained on 28 April 2010 for $78 when the company was incorporated. This company has incurred a loss of $115,500 (2010: $22,532) during the year ended 30 June 2011.

All of the shares of Clean TeQ Asian Pacific Limited were acquired on 13 November 2009 for $1. This company was dormant during the years ended 30 June 2011 and 30 June 2010.

**Disposals**

No entities within the consolidated group were disposed of during the financial years ended 30 June 2011 or 30 June 2010.

## NOTE 23: KEY MANAGEMENT PERSONNEL DISCLOSURES

### (a) Details of key management personnel:

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

| | |
|---|---|
| DIRECTORS | |
| Greg Toll | Executive Director, Chief Executive Officer retired 2 August 2010,<br>Executive Chairman from 1 October 2010 |
| Peter Voigt | Executive Director & Chief Executive Officer from 2 August 2010 |
| Bob Cleary | Non-Executive Director |
| Ralph Pliner | Non-Executive Chairman retired 30 September 2010 |
| Jeremy Carter | Executive Director retired 2 August 2010 |
| Roger Harley | Non-Executive Director |
| EXECUTIVES | |
| Marc Lichtenstein | Company Secretary & Chief Financial Officer retired 7 July 2011 |
| Ross Dive | Executive Director of UV Guard Australia Pty Ltd |

There were no other executives in the consolidated group that met the definition of an executive or key management personnel in accordance with the Corporations Act 2001 or the Australian Accounting Standards.

### (b) Remuneration of key management personnel

The key management personnel compensation included in 'employee benefit expenses' is as follows:

| | Consolidated | |
|---|---|---|
| | **2011 $'000** | **2010 $'000** |
| Short-term employee benefits | 864 | 1,096 |
| Post-employment benefits | 76 | 88 |
| Share-based payments | 8 | 7 |
| | **948** | **1,191** |

The key management personnel receive no compensation in relation to the management of the Company. Key management personnel are compensated for management of the Group not the Company.

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

## NOTE 24: DIRECTORS' AND EXECUTIVES' EQUITY HOLDINGS

### (a) Details concerning share-based compensation of Directors and Executives

In accordance with the remuneration policy described above, options granted as remuneration are subject to continuing service with the Company. Options granted as remuneration are valued at grant date in accordance with AASB 2 *Share-based Payments*. Options previously granted as remuneration that lapsed or been exercised during the year are detailed in the Remuneration Report.

### (b) Shares issued on exercise of compensation options

There have been no shares issued on exercise of compensation options to key management personnel.

### (c) Number of options held by key management personnel

The movement during the reporting period in the number of options over ordinary shares in Clean TeQ Holdings Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| 2011 | Held at 1 July 2010 | Granted as compensation | Options exercised | Other changes* | Held at 30 June 2011 | Vested during the year | Vested and exercisable at 30 June 2011 |
|---|---|---|---|---|---|---|---|
| DIRECTORS | | | | | | | |
| Ralph Pliner | 195,000 | - | - | (195,000) | - | - | - |
| Greg Toll | 585,000 | - | - | (195,000) | 390,000 | - | 390,000 |
| Peter Voigt | 585,000 | - | - | (195,000) | 390,000 | - | 390,000 |
| Jeremy Carter | 234,000 | - | - | (234,000) | - | - | - |
| Roger Harley | - | - | - | - | - | - | - |
| Bob Cleary | - | - | - | - | - | - | - |
| EXECUTIVES | | | | | | | |
| Marc Lichtenstein | 537,500 | - | - | (162,500) | 375,000 | - | 375,000 |
| Ross Dive | - | 150,000 | - | - | 150,000 | 50,000 | 50,000 |

| 2010 | Held at 1 July 2009 | Granted as compensation | Options exercised | Other changes* | Held at 30 June 2010 | Vested during the year | Vested and exercisable at 30 June 2010 |
|---|---|---|---|---|---|---|---|
| DIRECTORS | | | | | | | |
| Ralph Pliner | 195,000 | - | - | - | 195,000 | 65,000 | 195,000 |
| Greg Toll | 585,000 | - | - | - | 585,000 | 195,000 | 585,000 |
| Peter Voigt | 585,000 | - | - | - | 585,000 | 195,000 | 585,000 |
| Jeremy Carter | 234,000 | - | - | - | 234,000 | 78,000 | 234,000 |
| Barry Lewin | 97,500 | - | - | - | 97,500 | 32,500 | 97,500 |
| Roger Harley | - | - | - | - | - | - | - |
| Bob Cleary | - | - | - | - | - | - | - |
| EXECUTIVES | | | | | | | |
| Marc Lichtenstein | 487,500 | 50,000 | - | - | 537,500 | 162,500 | 537,500 |
| Ross Dive | - | - | - | - | - | - | - |

*Other changes represent options that expired or were forfeited during the year.

## NOTE 24: DIRECTORS' AND EXECUTIVES' EQUITY HOLDINGS CONTINUED

No options held by key management personnel are vested but not exercisable at 30 June 2010. No options were held by key management person related parties.

**(d) Number of shares held by key management personnel:**

The movement during the reporting period in the number of ordinary shares in Clean TeQ Holdings Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| 2011 | Held at 1 July 2010 | Other | Granted as compensation | Purchases | Received on exercise of options | Sale | Held at 30 June 2011 |
|---|---|---|---|---|---|---|---|
| DIRECTORS | | | | | | | |
| Ralph Pliner | 50,000 | (50,000)* | | | | | |
| Greg Toll | 7,934,480 | (12,000)** | 3,571 | 857,100 | - | - | 8,783,151 |
| Peter Voigt | 19,740,994 | - | 3,571 | - | - | - | 19,744,565 |
| Jeremy Carter | 5,890,310 | (5,890,310)* | - | - | - | - | - |
| Roger Harley | - | - | - | - | - | - | - |
| Bob Cleary | - | - | - | - | - | - | - |
| EXECUTIVES | | | | | | | |
| Marc Lichtenstein | 137,135 | - | - | - | - | - | 137,135 |
| Ross Dive | 40,000 | - | - | - | - | - | 40,000 |

| 2010 | Held at 1 July 2009 | Other | Granted as compensation | Purchases | Received on exercise of options | Sale | Held at 30 June 2010 |
|---|---|---|---|---|---|---|---|
| DIRECTORS | | | | | | | |
| Ralph Pliner | 50,000 | - | - | - | - | - | 50,000 |
| Greg Toll | 7,931,345 | - | 3,135 | - | - | - | 7,934,480 |
| Peter Voigt | 19,743,859 | - | 3,135 | - | - | 6,000 | 19,740,994 |
| Jeremy Carter | 5,890,310 | - | - | - | - | - | 5,890,310 |
| Barry Lewin | 200,000 | - | - | - | - | - | 200,000 |
| Roger Harley | - | - | - | - | - | - | - |
| Bob Cleary | - | - | - | - | - | - | - |
| EXECUTIVES | | | | | | | |
| Marc Lichtenstein | 124,000 | - | 3,135 | - | - | - | 127,135 |
| Ross Dive | 40,000 | - | - | - | - | - | 40,000 |

*Not a Director at 30 June 2011 therefore disclosure no longer required
**Related party holding at 30 June 2010 no longer meeting the definition of related party

During the course of the current and prior years shares have been granted as compensation to all employees who met the qualifying requirements in accordance with the Company's Tax Exempt Share Plan. No shares were held by related parties of key management personnel other than as reflected above.

## NOTE 25: LOANS TO AND FROM KEY MANAGEMENT PERSONNEL

There were no loans provided to key management personnel and or their related parties in the 2011 and 2010 financial years.

## NOTE 26: RELATED PARTY DISCLOSURES

### (a) Director-related entity transactions

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

Mr Barry Lewin is the founder and Managing Director of SLM Corporate. During the comparative financial year, SLM Corporate has acted as corporate advisor for Clean TeQ providing advisory services on an arms length basis. SLM acted as an advisor to Clean TeQ in its IPO and also provided advisory services on an arms length basis in the previous financial year. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms. Total fees paid/payable to SLM Corporate whilst Mr Barry Lewin was a Director of the Company are as follows:

| | Consolidated | |
|---|---|---|
| | 2011<br>$'000 | 2010<br>$'000 |
| Total fees paid / payable | - | 20 |

### (b) Equity instruments of Directors

**Interests at balance date**

Interests in the equity instruments of Clean TeQ Holdings Limited held by Directors of the reporting entity and their personally related entities are disclosed in Note 24(d).

### (c) Other related party transactions

From time to time Directors of the Group may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by the other Group employees or customers.

## NOTE 27: AUDITOR'S REMUNERATION

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| AUDIT SERVICES | | |
| **Auditors of the Company** | | |
| Pitcher Partners | | |
| • Audit and review of financial reports | 123,500 | 106,500 |
| | **123,500** | **106,500** |
| OTHER SERVICES | | |
| Pitcher Partners | | |
| • Other assurance services | 3,820 | 2,105 |
| • General advice | 5,978 | 3,150 |
| • Taxation services | 22,055 | 17,890 |
| | **31,853** | **23,145** |

Other assurance services undertaken by Pitcher Partners include the review of the costs incurred and activities undertaken by the Company in relation to the Climate Ready Grant.

## NOTE 28: SEGMENT INFORMATION

**Business segments**

The consolidated entity has three reportable segments, as described below, which are the consolidated entity's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the consolidated entity's CEO reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the consolidated entity's reportable segments:

- **Air Purification** This has been the core business of the Company since 1990. Clean TeQ provides a full suite of air purification and odour elimination solutions to municipal and statutory authorities and industrial companies.
- **Water Purification** Clean TeQ's suite of water technologies filter, separate and purify polluted waters for drinking, agriculture, recreation or industrial use. Clean TeQ is developing technologies for use in the purification and recycling of waste water and the desalination of brackish water. Our UV Guard business specialises in the design, sale and distribution of ultra violet disinfection products that are used in the water and wastewater industries.
- **Resource** The Clean-iX® Technology is at the core of this Division and aims to provide cost effective extraction techniques for a range of resources, including base metals, precious metals and radioactive elements (such as uranium).

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the consolidated entity's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

**Geographical segments**

Geographically, the Group operates predominately in Australia.

**Information about reportable segments**

| Business segments | Air | Resource | Water | Other | Consolidated |
|---|---|---|---|---|---|
| | 2011 $'000 | 2011 $'000 | 2011 $'000 | 2011 $'000 | 2011 $'000 |
| External revenue | 2,417 | 274 | 3,675 | 299 | 6,665 |
| Segment revenue | 2,417 | 274 | 3,675 | 299 | 6,665 |
| Segment results | 443 | 119 | 1,604 | 285 | 2,451 |
| Unallocated expenses | | | | | (9,389) |
| Income tax benefit | | | | | 1,664 |
| Loss for the year | | | | | **(5,274)** |
| Segment assets | 669 | 4,688 | 7,252 | - | 12,609 |
| Unallocated assets | | | | | 4,492 |
| Total assets | | | | - | **17,101** |
| Segment liabilities | 85 | - | 1,253 | - | 1,338 |
| Unallocated liabilities | | | | | 4,511 |
| Total liabilities | | | | - | **5,849** |
| **Other segment information:** | | | | | |
| Capital expenditure including capitalised development expenditure | 28 | 438 | 768 | 132 | 1,366 |
| Amortisation of intangibles | 267 | 32 | 280 | 76 | 655 |
| Impairment of capitalised development expenditure | 60 | 345 | 364 | 2,273 | 3,042 |

| | Air | Resource | Water | Other | Consolidated |
|---|---|---|---|---|---|
| | 2010 $'000 | 2010 $'000 | 2010 $'000 | 2010 $'000 | 2010 $'000 |
| External revenue | 9,097 | 4,467 | 3,190 | 362 | 17,116 |
| Segment revenue | 9,097 | 4,467 | 3,190 | 362 | 17,116 |
| Segment results | 2,181 | 3,141 | 1,735 | 333 | 7,390 |
| Unallocated expenses | | | | | (5,579) |
| Income tax expenses | | | | | (477) |
| Profit for the year | | | | | **1,334** |
| Segment assets | 2,325 | 5,242 | 6,349 | - | 13,916 |
| Unallocated assets | | | | | 8,299 |
| Total assets | | | | | **22,215** |
| Segment liabilities | 132 | - | 1,369 | - | 1,501 |
| Unallocated liabilities | | | | | 6,083 |
| Total liabilities | | | | | **7,584** |
| **Other segment information:** | | | | | |
| Capital expenditure including capitalised development expenditure | 109 | 1,727 | 565 | 512 | 2,913 |
| Amortisation of intangibles | 52 | 620 | - | - | 672 |

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

## NOTE 29: FINANCIAL INSTRUMENTS

Exposure to interest rate, credit and currency risks arises in the normal course of the Group business.

### (a) Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

| Financial instruments | Floating interest rate | | Fixed interest rate maturing in: | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 1 year or less | | Over 1 to 5 years | | More than 5 years | |
| | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 |
| **(i) Financial assets** | | | | | | | | |
| Cash | 520 | 1,679 | 827 | 1,676 | - | - | - | - |
| Trade and other receivables | - | - | - | - | - | - | - | - |
| Total financial assets | 520 | 1,679 | 827 | 1,676 | - | - | - | - |
| **(ii) Financial liabilities** | | | | | | | | |
| Trade creditors | - | - | - | - | - | - | - | - |
| Other creditors | - | - | - | - | - | - | - | - |
| Convertible notes | - | | 697 | - | - | - | - | - |
| Hire purchase liability | - | - | 25 | 22 | 63 | 88 | - | - |
| Finance lease liability | - | - | 5 | 6 | - | 5 | - | - |
| Employee benefits | - | - | - | - | - | - | - | - |
| Total financial liabilities | - | - | 727 | 28 | 63 | 93 | - | - |

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

The consolidated entity has fixed-rate borrowings and therefore exposure to a risk of change in cash flows due to changes in interest rates is minimised. Investments in short-term receivables and payables are not exposed to interest rate risk.

| | Non-interest bearing | | Total carrying amount as per the Balance Sheet | | Weighted average effective interest rate | |
|---|---|---|---|---|---|---|
| | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 | 2011 % | 2010 % |
| | | | | | | |
| | - | - | 1,347 | 3,355 | 5.37 | 4.47 |
| | 1,195 | 2,531 | 1,195 | 2,531 | | |
| | 1,195 | 2,531 | 2,542 | 5,886 | | |
| | | | | | | |
| | 561 | 1,781 | 561 | 1,781 | | |
| | 548 | 981 | 548 | 981 | | |
| | - | - | 697 | - | 10.54 | - |
| | - | - | 88 | 110 | 9.21 | 9.21 |
| | - | - | 5 | 11 | 10.05 | 10.05 |
| | 338 | 385 | 338 | 385 | | |
| | 1,447 | 3,147 | 2,237 | 3,268 | | |

## NOTE 29: FINANCIAL INSTRUMENTS CONTINUED

### (b) Credit risk exposures

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The consolidated entity does not require collateral in respect of financial assets.

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 of those assets, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| AGEING OF DEBTORS ANALYSIS | | |
| 0 – 30 days | 646 | 1,916 |
| 31 – 60 days | 345 | 169 |
| 60 – 90 days | 35 | 340 |
| 90+ days | 84 | 17 |
| | **1,110** | **2,442** |

Normal trading terms are 30 days from month end. Amounts outstanding beyond normal trading terms do not have a history of default and thus management is of the view that no debtors are impaired at 30 June 2011 or 30 June 2010 and thus should be provided for.

### (c) Net fair values

The net fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in the statement of financial position and notes to the financial statements.

**Recognised financial instruments**

Cash, cash equivalents and short-term investments: The carrying amount approximates fair value because of their short-term to maturity.

Trade receivables and trade creditors: The carrying amount approximates fair value.

Short-term borrowings: The carrying amount approximates fair value because of their short-term to maturity.

## NOTE 30: CONTROLLED ENTITIES

| | Country of Incorporation | Percentage Owned | |
|---|---|---|---|
| | | 2011 | 2010 |
| PARENT ENTITY | | | |
| Clean TeQ Holdings Limited | Australia | | |
| SUBSIDIARIES OF CLEAN TEQ HOLDINGS LIMITED | | | |
| Clean TeQ Limited | Australia | 100% | 100% |
| Resix Pty Ltd | Australia | 100% | 100% |
| CT Global Holdings Pty Ltd | Australia | 100% | 100% |
| LiXiR Functional Foods Pty Ltd | Australia | 100% | 100% |
| Clean TeQ Water Pty Ltd | Australia | 100% | 100% |
| Clean TeQ Resin Production Pty Ltd | Australia | 90% | 90% |
| UV-Guard Australia Pty Ltd* | Australia | 100% | 100% |
| Clean TeQ Asian Pacific Limited** | Hong Kong | 100% | 100% |
| UV-Guard New Zealand Limited** | New Zealand | 100% | 100% |

*This entity was acquired with effect from 1 July 2009.

**These entities were incorporated on 13 November 2009 and 28 April 2010 respectively.

## NOTE 31: SUBSEQUENT EVENTS

On 11 July 2011, the Company issued 601,084 fully paid ordinary shares under the Employee Share Plan at an issue of price of 3.66 cents per share.

On 15 August 2011 the Company entered into a loan agreement with Aqua Guardian Group ("AGG"), a 50% owned subsidiary of Wasabi Energy Ltd which will permit it to borrow up to $1,000,000. To fund repayment of the loan, the Company has agreed with AGG that it will undertake a non-renounceable rights issue to raise $1,000,000. The rights issue will be on the basis of two new shares for every seven existing ordinary shares at the offer price of 3.70 cents per share (which is a 10% discount to the volume weighted average price of shares over the twenty trading days prior to Friday 12 August 2011. The issue will be fully underwritten by Wasabi Energy Ltd.

There have been no other events subsequent to balance date which would have a material effect on the Group's financial statements at 30 June 2011 other than disclosed above.

## NOTE 32: FINANCIAL RISK MANAGEMENT

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

- credit risk;
- liquidity risk;and
- operational risk.

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

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

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their experience and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Board is assisted in its oversight role by the Audit Committee and executive management team. Executive management undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board and the Audit Committee.

### Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

#### Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. The majority of the Group sales transactions are evenly spread across a large number of customers. Geographically there is an Australian concentration of credit risk.

The Board has established a credit policy under which each new significant customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Each new contract of works to be under taken by the Group, which is greater then a predetermined level, must be approved by the Board prior to the contract being signed.

Many of the Group's customers are large multinationals and government organisations who have been transacting with the Group for a number of years. Losses have occurred very infrequently since the inception of the business. The majority of sales transactions undertaken by the Group require the customer to make payments as contract milestones are achieved. Failure of the customer to make payment by the due date will result in the further supply of goods and services being put on hold until such time as payment is received by the Group.

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

#### Guarantees

Group policy is to provide financial guarantees only to wholly-owned subsidiaries. Details of outstanding guarantees are provided in Note 33.

## NOTE 32: FINANCIAL RISK MANAGEMENT CONTINUED

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. During the year the Company entered into an agreement with La Jolla Cove Investors Inc. for the issuing of convertible notes of up to US$6 million. The ability of the Company to drawdown on these notes is subject to specific terms and conditions as detailed in Note 13 . Subsequent to the end of the financial year the Company announced that it had entered in to a short term loan agreement with Aqua Guardian Group ("AGG"), a 50% owned subsidiary of Wasabi Energy, which will permit the Company to borrow up to $1,000,000. The primary purpose of the loan facility is to enable the Company to repay (in preference to converting) the outstanding principal and interest due on the convertible note currently held by La Jolla Cove Investors Inc. The convertible loan debt at 30 June 2011 is $697,000. It was also announced that the Company has agreed with AGG that it will undertake a fully underwritten non-renounceable rights issue to raise $1,000,000 before costs. These funds will then be used by the Company firstly to repay the loan to AGG and then for working capital needs.

The Group uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains the following lines of credit:

- $827,340 overdraft facility that is secured by a fixed deposit of the same amount.

**Interest rate risk**

The Group currently has convertible notes that are subject to a fixed interest rate of 4.75% and no other significant debt subject to variable interest rates. Accordingly the Group has limited exposure to interest rate movements. Surplus cash is placed on term deposit for up to 180 days at fixed interest rates.

**Operational Risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by management.

**Capital Management**

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

The Board's target is for employees of the Group, excluding the founders, to hold 10 percent of the Company's ordinary shares in due course. At present assuming that all outstanding share options vest and/or are exercised significantly less than this amount of the shares would be held by the Group's employees.

During the year the Company entered into a convertible note facility and also undertook a placement to fund the short term liquidity requirements of the Company. As a result of the conversions and the placement a further 37,899,521 shares were issued to non-employees.

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

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## NOTE 33: DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' Report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- CleanTeQ Limited
- Resix Pty Ltd.

Clean TeQ Limited and Resix Pty Ltd became a party to the Deed on 30 April 2008, by virtue of a Deed being established and entered into on this date.

The consolidated statement of comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2011 is set out as follows:

**Statement of Comprehensive Income and Retained Earnings (Closed Group)**

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| Revenue | 4,020 | 14,904 |
| Changes in inventories of finished goods | - | (148) |
| Raw materials used and other direct costs | (3,082) | (8,601) |
| Employee benefits expense | (2,660) | (2,878) |
| Depreciation and amortisation expenses | (3,657) | (754) |
| Administration expenses | (602) | (513) |
| Marketing expenses | (136) | (258) |
| Finance costs | (57) | (33) |
| Other expenses | (999) | (503) |
| **Profit / (loss) before income tax expenses** | (7,173) | 1,216 |
| Income tax (expense) / benefit | 1,667 | (290) |
| **Profit / (loss) from continuing operations** | (5,506) | 926 |
| **Profit / (loss) attributable to the members of the parent** | **(5,506)** | **926** |

## NOTE 33: DEED OF CROSS GUARANTEE CONTINUED

**Statement of Financial Position (Closed Group)**

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 1,181 | 3,160 |
| Trade and other receivables | 1,254 | 2,878 |
| Inventories | 1,034 | 1,427 |
| **Total current assets** | 3,469 | 7,465 |
| NON-CURRENT ASSETS | | |
| Deferred tax assets | 2,588 | 1,579 |
| Financial assets | 550 | 550 |
| Plant and equipment | 303 | 383 |
| Intangible assets | 9,234 | 11,431 |
| **Total non-current assets** | 12,675 | 13,943 |
| **Total assets** | 16,144 | 21,408 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Trade and other payables | 879 | 2,416 |
| Loans and borrowings | 721 | 21 |
| Employee benefits | 257 | 342 |
| Other liabilities | 1,016 | 1,070 |
| **Total current liabilities** | 2,873 | 3,849 |
| NON-CURRENT LIABILITIES | | |
| Loans and borrowings | 33 | 61 |
| Deferred tax liabilities | 2,588 | 3,246 |
| Employee benefits | 38 | 29 |
| **Total non-current liabilities** | 2,659 | 3,336 |
| **Total liabilities** | 5,532 | 7,185 |
| **Net assets** | **10,612** | **14,223** |
| EQUITY | | |
| Issued capital | 10,059 | 8,175 |
| Retained earnings | 471 | 5,848 |
| Share option reserve | 82 | 200 |
| **Total equity** | **10,612** | **14,223** |

## NOTE 34: PARENT ENTITY DETAILS

Summarised presentation of the parent entity, Clean TeQ Holdings Limited, financial statements:

**(a) Summarised statement of financial position**

| | Company | |
|---|---|---|
| | **2011 $'000** | **2010 $'000** |
| ASSETS | | |
| Current assets | 489 | 851 |
| Noncurrent assets | 9,435 | 8,244 |
| **Total assets** | 9,924 | 9,095 |
| LIABILITIES | | |
| Current liabilities | 3,294 | 1,114 |
| Non-current liabilities | 16 | - |
| **Total liabilities** | 3,310 | 1,114 |
| **Net assets** | 6,614 | 7,981 |
| EQUITY | | |
| Issued capital | 10,059 | 8,175 |
| Accumulated losses | (3,527) | (394) |
| Share option reserve | 82 | 200 |
| **Total equity** | 6,614 | 7,981 |

**(b) Summarised statement of comprehensive income**

| | Company | |
|---|---|---|
| | **2011 $'000** | **2010 $'000** |
| Loss for the year | (3,133) | (193) |
| Other comprehensive loss for the year | - | - |
| Total comprehensive income for the year | **(3,133)** | **(193)** |

The loss for the eyar in the parent entity is as a result of the impairment of investment in subsidiaries of $2,235,000 and impairment of intercompany loans receivable of $537,000

**(c) Parent entity guarantees**

Refer to Note 33 for details of Guarantees provided by the parent entity Clean TeQ Holdings Limited.

**(d) Parent entity contingent liabilities**

The parent entity has no known contingent liabilities at the date of this report.

**(e) Parent entity contractual commitments**

The parent entity does not have any contractual commitments for the acquisition of property, plant or equipment at 30 June 2011 or since the end of the financial year.

# DIRECTORS DECLARATION

1. In the opinion of the Directors of Clean TeQ Holdings Limited ("the Company"):
   - (a) the financial statements and notes including the remuneration disclosures that are contained in the Remuneration report in the Directors' report, set out on pages 22 to 46, are in accordance with the Corporations Act 2001, including:
     - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and its performance, for the financial year ended on that date; and
     - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
     - (iii) as stated in Note 1, the consolidate financial statements also comply with International Financial Reporting Standards;
   - (b) 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
   - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the group entities identified in Note 33 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.
3. The Directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2011 pursuant to Section 295A of the Corporations Act 2001.

Dated at 24 August 2011

Melbourne.

Signed in accordance with a resolution of the Directors:

**Peter Voigt**
Director

PITCHER PARTNERS

An independent Victorian Partnership
ABN 27 975 255 196

**CLEAN TEQ HOLDINGS LIMITED**
**ABN 34 127 457 916**
**AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF**
**CLEAN TEQ HOLDINGS LIMITED**

## Report on the Financial Report

We have audited the accompanying financial report of Clean TeQ Holdings Limited and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial statements comply with *International Financial Reporting Standards.*

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

*Independence*

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

PITCHER PARTNERS

An independent Victorian Partnership
ABN 27 975 255 196

**CLEAN TEQ HOLDINGS LIMITED**
**ABN 34 127 457 916**
**AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF**
**CLEAN TEQ HOLDINGS LIMITED**

*Opinion*

In our opinion:

(a) the financial report of Clean TeQ Holdings Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

*Emphasis of Matter*

We draw attention to Note 1 (c) Going Concern to the financial statements which details the loss and operational cash outflows incurred by the consolidated entity for the year ended 30 June 2011 and the basis for the preparation of the financial report on a going concern basis. Our opinion is not modified in respect of this matter.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 18 to 27 of the directors' report for the year ended 30 June 2011. 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.

*Opinion*

In our opinion, the Remuneration Report of Clean TeQ Holdings Limited and controlled entities for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

S D WHITCHURCH
Partner

PITCHER PARTNERS
Melbourne

24 August 2011

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Melbourne | Sydney | Perth | Adelaide | Brisbane
An independent member of Baker Tilly International

# ADDITIONAL SHAREHOLDER INFORMATION

## SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 30 September 2011.

### 1. Distribution of Shareholders

**(a) Analysis of number of shareholders by size of holding.**

| Category of holding | Number of Shareholders | Number of Option holders |
|---|---|---|
| 1 – 1,000 | 18 | - |
| 1,001 – 5,000 | 126 | - |
| 5,001 – 10,000 | 129 | - |
| 10,001 – 100,000 | 345 | 16 |
| 100,001 and over | 110 | 9 |
| **Total** | **728** | **25** |

**(b) There are 303 shareholders with less than a marketable parcel of ordinary shares.**

### 2. Twenty Largest Shareholders

The names of the twenty largest holders by account holding of quoted ordinary shares not under Escrow are listed below:

| Shareholder | Holding | % |
|---|---|---|
| Aqua Guardian Group Limited | 21,853,352 | 17.48 |
| Thierville Pty Ltd | 20,478,602 | 16.38 |
| Wasabi Energy Limited | 10,771,356 | 8.61 |
| Mr Gregory L Toll + Mrs Margaret E Toll <Toll Super Fund A/C> | 8,272,820 | 6.62 |
| Jeremy's Haven Pty Ltd | 5,690,310 | 4.55 |
| Thierville Pty Ltd <Star Superannuation A/C> | 5,265,406 | 4.21 |
| Toll Associates Pty Ltd | 4,267,900 | 3.41 |
| HSBC Custody Nominees (Australia) Limited | 1,935,714 | 1.55 |
| Mr Nikolai Zontov | 1,316,354 | 1.05 |
| Mr Emil Tchernych | 1,310,000 | 1.05 |
| Bell Potter Nominees (Australia) Limited | 1,271,711 | 1.02 |
| Mal Clarke & Associates Pty Ltd <Mal Clark Family A/C> | 1,000,000 | 0.80 |
| Yieldhi Enterprises Limited | 983,288 | 0.79 |
| Filchem Superannuation Nominees Pty Ltd <Superannuation Fund A/C> | 900,000 | 0.72 |
| Midstate Pty Ltd | 800,000 | 0.64 |
| Mr Ricky K Martin Hill | 750,000 | 0.60 |
| Mrs Virginia Warnecke | 717,000 | 0.57 |
| Reynolds Coal Marketing Pty Ltd <Super Fund A/C> | 702,000 | 0.56 |
| Mr John H Valder + Mrs Kay O Valder <Jayvee Pty Ltd No.3 Pty Ltd> | 700,000 | 0.56 |
| Mr John J Byrne + Mrs Maritza I Byrne <John Byrne Prvte Pen Fnd A/C> | 642,858 | 0.51 |
| **Total** | **89,628,871** | **71.68** |

### 3. Restricted Securities

There are currently no shares subject to voluntary escrow.

### 4. Substantial Shareholders

As at 9 August 2011 the substantial shareholders were as follows:

| Name of Shareholder | No of Shares | % of Issued Capital |
|---|---|---|
| Aqua Guardian Group Limited | 21,853,352 | 17.48 |
| Thierville Pty Ltd | 20,474,602 | 16.38 |
| Wasabi Energy Limited | 10,771,356 | 8.61 |
| Mr Gregory L Toll + Mrs Margaret E Toll <Toll Super Fund A/C> | 8,272,820 | 6.62 |

### 5. Voting Rights

The voting rights attached to each class of equity security are as follows:

#### Ordinary Shares

Each share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

#### Options

There are no voting rights attached to the options.

# CORPORATE DIRECTORY

## COMPANY

The registered office of the company is:

**Clean TeQ Holdings Limited**

**Melbourne - Head Office**
270-280 Hammond Road
Dandenong South, Victoria 3175
Australia
Ph: +61 (0) 3 9797 6700
Fax: +61 (0) 3 9706 8344
www.cleanteq.com

**UV-Guard Australia Pty Ltd**
Unit 7, 88 Magowar Road
Girraween, New South Wales 2145
Ph: +61 (0) 2 9631 4900

## DIRECTORS

**Greg Toll –** Chairman
**Peter Voigt –** Chief Executive Officer
**Roger Harley –** Non-Executive Director
**Bob Cleary –** Non-Executive Director

## COMPANY SECRETARY

**Melanie Leydin**

## AUDITOR

**Pitcher Partners**
Level 19, 15 William Street
Melbourne, Victoria 3000

## BANKERS

**BankWest**
6th Floor, Bourke Place
600 Bourke Street
Melbourne, Victoria 3000

## LAWYERS

**Minter Ellison**
Level 23 South, Rialto Towers
525 Collins Street
Melbourne, Victoria 3000

## SHARE REGISTRY

**Computershare Investor Services Pty Limited**
Yarra Falls, 452 Johnston Street
Abbotsford, Victoria 3067
Ph: +61 (03) 9415 5000
Fax: +61 (03) 9473 2500

## ANNUAL GENERAL MEETING

24 November 2011 at 10.00am (AEDT)

Level 11, 123 Queen Street
Melbourne, Victoria 3000

## STOCK EXCHANGE LISTING

Clean TeQ Holdings Limited is listed on
the Australian Stock Exchange (Code: CLQ)

Designed and produced by motivo

**Clean TeQ Holdings Ltd**
ABN 34 127 457 916

270-280 Hammond Road
Dandenong South VIC 3175

**P** +61 3 9797 6700
**F** +61 3 9706 8344

www.cleanteq.com

ASX code: CLQ