Clean TeQ Holdings Limited

ABN 34 127 457 916

Half-year Financial Report - 31 December 2015

Contents

Corporate directory

Directors	Sam Riggall (Executive Chairman and CEO) Peter Voigt (Executive Director) Roger Harley (Independent Non-Executive Director) Ian Knight (Independent Non-Executive Director) Eric Finlayson (Independent Non-Executive Director)
Company Secretary	Melanie Leydin
Registered office	Ferntree Business Park 2 Acacia Place Notting Hill Victoria 3168 Australia Ph: (+61 3) 9797 6700 Fax: (+61 3) 9706 8344
Principal place of business	Ferntree Business Park 2 Acacia Place Notting Hill Victoria 3168 Australia
Share register	Computershare Investor Services Pty Limited Yarra Falls, 452 Johnson Street Abbotsford, Victoria 3067 Ph: + 61 (03) 9415 5000 Fax: +61 (03) 9473 2500
Auditor	KPMG 147 Collins Street Melbourne, Victoria 3000
Solicitors	Minter Ellison Level 23 South, Rialto Towers 525 Collins Street Melbourne, Victoria 3000
Bankers	BankWest 6th Floor, Bourke Place 600 Bourke Street Melbourne, Victoria 3000
Stock exchange listing	Clean TeQ Holdings Limited shares are listed on the Australian Securities Exchange (ASX code: CLQ)
Website	www.cleanteq.com

Directors' report

The directors present their report, together with the financial statements and the review report thereon, of the Consolidated Entity (referred to hereafter as the 'Consolidated Entity') consisting of Clean TeQ Holdings Limited (referred to hereafter as the 'Company' or 'Parent Entity') and the entities it controlled at the end of, or during, the financial half-year ended 31 December 2015.

Directors

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

Sam Riggall (Chairman and CEO)
Peter Voigt (Executive Director)
Roger Harley (Independent Non-Executive Director)
Ian Knight (Independent Non-Executive Director)
Eric Finlayson (Independent Non-Executive Director) (Appointed – 16 September 2015)

Principal activities

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

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

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

Dividends

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

Review of Operations

The loss for the Consolidated Entity attributable to owners of the Consolidated Entity for the financial half-year ended 31 December 2015 amounted $3.357 million (31 December 2014: $2.261 million).

During the financial half-year ended 31 December 2015, the Consolidated Entity's revenue from continuing operations increased to $1.267 million (2014: $0.316 million) primarily due to an increase in ATO research and development rebate income accrued in the current period. During the financial half-year, the Consolidated Entity recorded a loss after tax from continuing operations of $3.357 million compared to a $2.261 million loss after tax in the comparative 2014 period.

Revenue, net profit and assets for the Air Purification Division segment for the half-year are zero as a result of the Consolidated Entity selling the Air Purification Division on 30 June 2015. The Air Purification Division represents a discontinued operation – refer to Note 6 to the financial statements.

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

The key focus for the Metals Division was advancing the development of the Syerston Scandium Project. A Feasibility Study for the project is currently underway and on track for completion in June 2016. The Feasibility Study will be used as the basis for a decision to proceed with project construction, subject to obtaining offtake commitments and financing.

Review of operations (continued)

During the financial half-year, the Company constructed and operated a scandium recovery and purification demonstration plant in Perth. The demonstration plant simulates the scandium recovery process to be used at the Syerston Scandium Project. The demonstration plant campaign, which included commissioning and operation of the entire leaching and extraction circuit, processed approximately 12 tonnes of Syerston ore, to produce samples of high purity (99.9%) scandium oxide. Potential offtake partners will use the samples for testing and product qualification purposes, a critical step for securing offtake commitments.

A 58-hole shallow vertical reverse circulation drill program was completed in November 2015 at the Syerston Scandium Project. The drill program was primarily targeted at increasing the confidence levels of the existing high grade scandium resource identified by the previously reported drill programs. The assay results of the infill drilling were well correlated with the existing data, confirming the high Scandium grades of the drilled zones. The data from the program will provide the inputs for an updated scandium mineral resource, to be used as the basis for the Syerston Feasibility Study.

In early 2015, the Consolidated Entity successfully completed a scandium recovery pilot plant trial at Ishihara Sangyo Kaisha Ltd's (‘ISK’) titanium dioxide facility in Yokkaichi, Japan. Commercial discussions with ISK are ongoing in respect of the Company providing ISK with a technology licence for a commercial scale scandium recovery solution.

The Water Division was focused on developing commercial opportunities for the Company’s technology to treat waste waters, with an emphasis on opportunities in the large Chinese market via the Company’s developing relationship with Shanghai Investigation, Design & Research Institute Co. Ltd, an affiliate of China Three Gorges Corporation.

A number of significant water purification project opportunities have been identified, both inside and outside China, in a number of key markets with a focus on treatment of waste water from mining operations. The Consolidated Entity will continue working towards securing commercial contracts in the near future, and anticipates both the Water and Metals Divisions to produce substantial revenues in the future.

The continuing development of the Syerston Project resulted in $1.741 million of expenditure being capitalised as an exploration and evaluation asset during the financial half-year. This expenditure, along with the net cash outflows from operating activities of $1.898 million was financed largely by capital raisings totalling $8.339 million after issue costs.

In August 2015, the Consolidated Entity made the final payment to Nippon Gas Co Limited (‘NGC’) under the purchase agreement struck with NGC, for the Consolidated Entity to purchase NGC’s 50% share of the Associated Water Joint Venture and NGC's 85% share of Clean World Japan. The payment totalled $1.170 million and was recorded as a current liability for deferred consideration at 30 June 2015.

As a result of the above, the Consolidated Entity’s net assets increased during the period by $6.291 million to $21.061 million (30 June 2015: $14.770 million). Working Capital, being current assets less current liabilities, amounts to a $8.508 million surplus (30 June 2015: $2.82 million), with cash reserves increasing from $3.313 million to $6.827 million during the period.

Significant changes in the state of affairs

On 8 July 2015, the Company announced that Sam Riggall, Executive Chairman and Interim Chief Executive Officer, was appointed Chairman and Chief Executive Officer.

On 27 August 2015, the Company announced the issue of a total of 36,876,574 new shares pursuant to an underwritten non-renounceable pro rata entitlement offer on the basis of 1 new fully paid ordinary share in the Company for every 10 shares at an issue price of $0.18 per new share (‘Entitlement Offer’). The Company also issued a total of 12,362,164 new shares to certain nominees of the underwriter at the same issue price as the Entitlement Offer (‘Top-Up Placement’). The Entitlement Offer and Top-Up Placement raised total proceeds of $8.863 million before issuance costs.

On 16 September 2015, the Company announced the appointment of Mr Eric Finlayson as a non-executive independent director. Mr Finlayson is a geologist with over thirty years’ experience in Australia and overseas. Mr Finlayson worked for 24 years with Rio Tinto including as regional exploration manager for Canada, Director of Exploration for Australasia and Global Head of Exploration for Rio Tinto based in London. Mr Finlayson is currently President of High Power Exploration. There were no other significant changes in the state of affairs of the Consolidated Entity during the financial half-year.

Matters subsequent to the end of the financial half-year

No matter or circumstance has arisen since 31 December 2015 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Lead auditor's independence declaration

The lead auditor's independence is set out on page 5 and forms part of the directors' report for the financial half-year ended 31 December 2015.

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

On behalf of the directors

Sam Riggall
Chairman and Chief Executive Officer

17 February 2016
Melbourne

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

To: the directors of Clean TeQ Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the financial half-year ended 31 December 2015 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Dana Bentley
Partner

Melbourne

17 February 2016

Clean TeQ Holdings Limited
Statement of profit or loss and other comprehensive income
For the financial half-year ended 31 December 2015

	Note	Consolidated 31 Dec 2015 $'000	Consolidated 31 Dec 2014 $'000
Revenue	5	1,267	316
Expenses			
Raw materials and other direct costs		(23)	(315)
Employee benefits expenses		(2,623)	(789)
Depreciation and amortisation expenses		(368)	(699)
Legal and professional expenses		(72)	(338)
Occupancy expenses		(173)	(65)
Marketing expenses		(203)	(230)
Other expenses		(891)	(165)
Finance costs		(271)	(430)
Loss before income tax benefit/(expense) from continuing operations		(3,357)	(2,715)
Income tax benefit/(expense)		-	(35)
Loss after income tax benefit from continuing operations		(3,357)	(2,750)
Profit after income tax expense from discontinued operations	6	-	489
Loss after income tax benefit/(expense) for the financial half-year attributable to the owners of Clean TeQ Holdings Limited		(3,357)	(2,261)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		-	-
Other comprehensive income for the financial half-year, net of tax		-	-
Total comprehensive income for the financial half-year attributable to the owners of Clean TeQ Holdings Limited		(3,357)	(2,261)
Total comprehensive income for the financial half-year is attributable to:			
Continuing operations		(3,357)	(2,750)
Discontinued operations:			
Non-controlling interests		-	32
Owners of the company		-	457
		(3,357)	(2,261)

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

Clean TeQ Holdings Limited
Statement of profit or loss and other comprehensive income
For the financial half-year ended 31 December 2015

	Note	Consolidated 31 Dec 2015 Cents	Consolidated 31 Dec 2014 Cents
Earnings per share for loss from continuing operations attributable to the owners of Clean TeQ Holdings Limited			
Basic earnings per share		(0.83)	(1.08)
Diluted earnings per share		(0.83)	(1.08)
Earnings per share for profit from discontinued operations attributable to the owners of Clean TeQ Holdings Limited			
Basic earnings per share		0.00	0.19
Diluted earnings per share		0.00	0.19
Earnings per share for loss attributable to the owners of Clean TeQ Holdings Limited			
Basic earnings per share		(0.83)	(0.89)
Diluted earnings per share		(0.83)	(0.89)

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

Clean TeQ Holdings Limited
Statement of financial position
As at 31 December 2015

	Note	Consolidated 31 Dec 2015 $'000	Consolidated 30 June 2015 $'000
Assets			
Current assets			
Cash and cash equivalents		6,827	3,313
Trade and other receivables		77	523
Inventories		96	96
Income tax receivable		2,160	963
Other financial assets		-	25
Total current assets		9,160	4,920
Non-current assets			
Other financial assets		418	328
Property, plant and equipment		2,422	2,589
Intangibles	7	11,306	11,900
Exploration and evaluation assets	8	1,594	246
Total non-current assets		15,740	15,063
Total assets		24,900	19,983
Liabilities			
Current liabilities			
Trade and other payables	9	344	1,778
Employee benefits		262	276
Deferred revenue		46	46
Total current liabilities		652	2,100
Non-current liabilities			
Deferred revenue		567	590
Notes payable	10	2,586	2,490
Employee benefits		34	33
Total non-current liabilities		3,187	3,113
Total liabilities		3,839	5,213
Net assets		21,061	14,770
Equity			
Issued capital	11	36,056	27,717
Reserves	12	2,372	1,063
Accumulated losses		(17,367)	(14,010)
Total equity		21,061	14,770

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

Clean TeQ Holdings Limited
Statement of changes in equity
For the financial half-year ended 31 December 2015

Consolidated	**Contributed Equity $'000**	**Accumulated Losses $'000**	**Reserves $'000**	**Non Controlling Interests $'000**	**Total Equity $'000**
Balance at 1 July 2014	17,787	(6,905)	198	-	11,080
Loss after income tax benefit for the financial half-year	-	(2,293)	-	32	(2,261)
Total comprehensive income for the financial half-year	-	(2,293)	-	32	(2,261)
Transactions with owners in their capacity as owners:					
Equity contributions, net of transaction costs	3,517	-	-	-	3,517
Share-based payments (note 19)	15	-	74	-	89
Lapse of options	-	-	(158)	-	(158)
Total contributions and distributions	3,532	-	(84)	-	3,448
Change in ownership interests:					
Change of controlling interest – recognition of new non-controlling interest in subsidiary	-	-	-	725	725
Change in non-controlling interests without a change in control	-	-	1,120	-	1,120
Total changes in ownership Interests	-	-	1,120	725	1,845
Total transactions with owners of the Company	3,532	-	1,036	725	3,221
Balance at 31 December 2014	21,319	(9,198)	1,234	757	14,112
Balance at 1 July 2015	27,717	(14,010)	1,063	-	14,770
Loss after income tax benefit for the financial half-year	-	(3,357)	-	-	(3,357)
Total comprehensive income for the financial half-year	-	(3,357)	-	-	(3,357)
Transactions with owners in their capacity as owners:					
Equity contributions, net of transaction costs	8,339	-	-	-	8,339
Share-based payments (note 19)	-	-	1,309	-	1,309
Lapse of options	-	-	-	-	-
Total contributions and distributions	8,339	-	1,309	-	9,648
Total transactions with owners of the Company	8,339	-	1,309	-	9,648
Balance at 31 December 2015	36,056	(17,367)	2,372	-	21,061

All amounts are stated net of tax

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

Clean TeQ Holdings Limited
Statement of cash flows
For the financial half-year ended 31 December 2015

	Note	Consolidated 31 Dec 2015 $'000	Consolidated 31 Dec 2014 $'000
Cash flows from operating activities			
Receipts from customers		780	2,888
Payments to suppliers and employees		(3,128)	(5,033)
		(2,348)	(2,145)
Interest received		52	27
Interest and other finance costs paid		(57)	(212)
Research and development tax incentive received		455	-
Net cash used in operating activities		(1,898)	(2,330)
Cash flows from investing activities			
Payments for property, plant and equipment		-	(30)
Development expenditure		(1,741)	(409)
Proceeds from sale of partial interest in subsidiary		-	345
Net cash used in investing activities		(1,741)	(94)
Cash flows from financing activities			
Proceeds from issue of shares, net of issuance costs		8,339	3,517
Repayment of finance lease		-	(22)
Cash on deposit for security over bank guarantees		(16)	-
Repayment of borrowings		(1,170)	(100)
Net cash from financing activities		7,153	3,395
Net increase in cash and cash equivalents		3,514	971
Cash and cash equivalents at the beginning of the financial half-year		3,313	2,540
Cash and cash equivalents at the end of the financial half-year		6,827	3,511

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

Note 1. General information

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

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

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

Ferntree Business Park
2 Acacia Place
Notting Hill
Victoria, Australia 3168

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 17 February 2016. The directors have the power to amend and reissue the financial report.

Note 2. Significant accounting policies

These general purpose financial statements for the financial half-year reporting period ended 31 December 2015 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

(a) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(b) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures, primarily relating to the discontinued operation – Note 6.

(c) New, revised or amending Accounting Standards and Interpretations not yet adopted

The Consolidated Entity has adopted all new and revised standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current half-year. Those standards adopted for the period ended 31 December 2015 are noted below:

AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.

A number of new standards and amendments to standards are effective for annual period beginning after 1 January 2014, however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

Note 2. Significant accounting policies (continued)

(c) New, revised or amending Accounting Standards and Interpretations not yet adopted (continued)

AASB 15 Revenue from Contracts with Customers

AASB 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognised

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

AASB 9 Financial Instruments

AASB 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment and supplements the new general hedge accounting requirements.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early application is permitted for annual reporting periods beginning on or after 1 January 2014.

(d) Going concern

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

The Consolidated Entity reported a net loss after tax from continuing operations for the half-year of $3.357 million (2014: $2.261 million). We note there were no significant revenues from continuing operations during the half-year. Operational revenues were more than offset by business development and corporate overhead costs. Working capital, being current assets less current liabilities, amounts to a $8.508 million surplus (30 June 2015: $2.82 million), with cash reserves increasing from $3.313 million to $6.827 million during the period. Net cash outflows from operating activities were $1.898 million for the financial half-year (2014: $2.33 million outflow).

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

- The Consolidated Entity increased its available cash on hand as at 31 December 2015 to $6.827 million;
- During the half-year, the Consolidated Entity raised $8.339 million in equity capital after issue costs, indicating strong support from investors to invest in the Consolidated Entity and its technologies;
- The Consolidated Entity received a $0.455 million cash rebate from the Australian Tax Office for eligible research and development expenditure relating to the 2014 financial year. The Consolidated Entity anticipates that a significant proportion of the forecast 2015 and 2016 financial years' development expenditure, including a large proportion of Syerston testwork and feasibility study expenditure, will also be eligible for the refundable tax offset; and,
- The forecast cash flows for the Consolidated Entity indicate a positive cash position for at least the period of 12 months to February 2017.

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

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

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

Note 2. Significant accounting policies (continued)

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

While the directors are confident in the Consolidated Entity's ability to continue as a going concern, in the event the cashflow forecasts are adversely impacted and the agreements and commercial opportunities described above do not eventuate as planned, including continued access to equity funding which at the date of this report is uncertain, there is a material uncertainty as to whether the Consolidated Entity will be able to generate sufficient net operating cash inflows or execute alternative funding arrangements to enable it to continue as a going concern, beyond the 12 months from the date the directors sign the financial report.

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

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

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

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

Intangible assets
The recoverable value of patents and trademarks acquired is based on the cost of registering the patents and trademarks, less any diminution in value through amortisation and impairment. The recoverable value of development intangible assets is based on discounted cash flows expected to be derived from the use and eventual sale of the assets.

At each reporting date, the directors and management undertake an impairment review to determine their value in use as derived from the discounted cash flow modelling. The impairment review carried out as at 31 December 2015 did not reveal any impairment.

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

Note 3. Critical accounting judgements, estimates and assumptions (continued)

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

Note 4. Operating segments

Identification of reportable operating segments
The Consolidated Entity is organised into 2 operating segments: Water Purification and Resource Recovery. These operating segments offer different products and services, and are managed separately because they require different technology and marketing strategies. For each segment internal reports are produced for review and use by the CEO, who is the Consolidated Entity's chief operating decision maker ('CODM'), in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

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

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

Information regarding the results of each reportable segment is included below. Performance is measured based on the net result before interest, depreciation and tax, as included in the internal management reports that are reviewed by the Consolidated Entity's CEO. Each segment's net result before interest, depreciation and tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis. The information relating to the performance of the identified segments includes revenues and directly attributable costs and materials. The assets attributed to each division relates to revenue generating assets. All other assets and liabilities are not allocated to specific segments.

Geographical segments
Geographically, the Consolidated Entity operates predominately in Australia.

Note 4. Operating segments (continued)

Operating segment information

Consolidated - 31 December 2015	Air Purification* $'000	Resource Recovery** $'000	Water Purification*** $'000	Intersegment eliminations/ unallocated**** $'000	Total $'000
Revenue					
Sales to external customers	-	-	95	43	138
Other income	-	502	426	149	1,077
Interest	-	-	-	52	52
Total revenue	-	502	521	244	1,267
Reportable segment profit/(loss) before tax	-	(275)	(1,391)	(1,691)	(3,357)
Loss before income tax expense					(3,357)
Income tax expense					-
Loss after income tax expense					(3,357)
Assets					
Segment assets	-	10,123	5,254	9,523	24,900
Total assets					24,900

***** The change in segment assets in the Air Purification segment from 31 December 2014 is primarily attributable to the sale of the Air business as at 30 June 2015. Refer to note 6 - Discontinued Operations.

** The change in segment assets for the Resource Recovery segment is primarily attributable to the acquisition of the Syerston Project from Ivanhoe Mines Ltd that occurred on 31 March 2015.

*** The change in segment assets for Water Purification segment is primarily attributable to the impairment charge recognized when the licence rights were written off on 30 June 2015.

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

Consolidated - 31 December 2014	Air Purification $'000	Resource Recovery $'000	Water Purification $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue					
Sales to external customers	3,597	210	103	-	3,910
Other revenue	-	-	(169)	145	(24)
Interest	-	-	-	27	27
Total revenue	3,597	210	(66)	172	3,913
Reportable segment profit/(loss) before tax	489	(36)	(224)	(2,455)	(2,226)
Loss before income tax expense					(2,226)
Income tax expense					(35)
Loss after income tax expense					(2,261)
Assets					
Segment assets	4,022	5,067	8,923	4,608	22,620
Total assets					22,620

Note 5. Revenue

	Consolidated	
	31 Dec 2015 $'000	**31 Dec 2014 $'000**
Sales revenue		
Contract revenue	138	117
Government grants	888	189
Rental income	44	-
	1,070	306
Other revenue		
Interest	52	27
Other revenue	145	(17)
	197	10
Revenue	1,267	316

Note 6. Discontinued operations

Description
Effective 30 June 2015, the Consolidated Entity divested its remaining 59% shareholding in Clean TeQ Aromatrix Pty Ltd to Australia Sunshine Holdings Limited for cash proceeds of $1.682 million. The divestment allows the Company to focus exclusively on the Company's Water and Metals businesses which are both primarily driven by the Company's proprietary continuous ion exchange technology.

In December 2014, the Consolidated Entity divested 41% of its shareholding in Clean TeQ Air Pty Ltd (the predecessor company to Clean TeQ Aromatrix Pty Ltd) to Aromatrix Technologies (Hong Kong) Ltd as a result of the Aromatrix business acquired and to entities associated with staff of Clean TeQ Air Pty Ltd. Cash proceeds of $0.345 million were received on this transaction. The Consolidated Entity recorded a gain on the divestment of $1.12 million directly in equity.

The Consolidated Entity has not and will not earn any income from this discontinued operation in the current reporting period.

Financial performance information

	Consolidated	
	31 Dec 2015 $'000	**31 Dec 2014 $'000**
Revenue from sale of goods	-	3,597
Total revenue	-	3,597
Expenses		
Raw materials and other direct costs	-	(2,172)
Employee benefits expenses	-	(592)
Depreciation and amortisation expenses	-	(13)
Legal and professional expenses	-	(21)
Occupancy expenses	-	(72)
Finance costs	-	(13)
Marketing expenses	-	(31)
Other expenses	-	(194)
Total expenses before tax	-	(3,108)
Income tax expense	-	-
Net profit after tax from discontinued operations	-	489
Profit after income tax from discontinued operations	-	489

Note 7. Non-current assets - intangibles

	Consolidated	
	31 Dec 2015 $'000	**30 Jun 2015 $'000**
Development - at cost	18,215	18,606
Less: Accumulated depreciation	(8,758)	(8,570)
	9,457	10,033
Patents and trademarks - at cost	713	713
Less: Accumulated depreciation	(285)	(267)
	428	446
Licences - at cost	1,421	1,421
Less: Accumulated depreciation	-	-
	1,421	1,421
	11,306	11,900

Note 8. Non-current assets - Exploration & evaluation assets

	Consolidated	
	31 Dec 2015 $'000	**30 Jun 2015 $'000**
Exploration expenditure – Syerston, at cost	1,594	246

Exploration Tenement Summary

Licence Number	Project Name	Location	Equity Interest 2015	Equity Interest 2014
EL4573	Syerston	NSW	100%	0%

Note 9. Current liabilities - trade and other payables

	Consolidated	
	31 Dec 2015 $'000	**30 Jun 2015 $'000**
Trade payables	306	282
Deferred consideration payable	-	1,171
Other payables	38	325
	344	1,778

Deferred consideration of $1.171 million as at 30 June 2015 was payable to Nippon Gas Co Ltd for the acquisition of Associated Water Pty Ltd and Clean World Japan. This amount was paid in August 2015.

Note 10. Notes payable

	Consolidated	
	31 Dec 2015 $'000	**30 Jun 2015 $'000**
Notes payable	2,586	2,490

As part of the acquisition of the Syerston Project from Ivanhoe Mines Ltd on 31 March 2015, a promissory note was issued by the Consolidated Entity with a face value of $3 million payable in three years' time and carrying a zero coupon rate. This promissory note is secured by first ranking mortgages against the real property of the Syerston Project. The promissory note is recognised at its amortised cost of $2.586 million (30 June 2015: $2.49 million).

Note 11. Equity - issued capital

	Consolidated			
	31 Dec 2015 Shares	**30 June 2015 Shares**	**31 Dec 2015 $'000**	**30 June 2015 $'000**
Ordinary shares – fully paid	418,004,477	368,765,739	36,056	27,717

Movements in ordinary share capital

Details	**Date**	**Shares**	**Issue Price**	**$'000**
Balance	1 July 2015	368,765,739		27,717
Shares issued as approved by the annual general meeting	26 August 2015	49,238,738	$0.18	8,863
Capital Raising Costs		-	-	(524)
Balance	31 December 2015	418,004,477		36,056

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

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

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

Note 11. Equity - issued capital (continued)

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

The Board's target is for employees of the Consolidated Entity, excluding the founders, to hold 10 percent of the Company's ordinary shares in due course. At present assuming that all outstanding share options and performance rights vest and/or are exercised, approximately 16% of the shares would be held by the Consolidated Entity's 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 Consolidated Entity may increase its debt levels if and when required in order to achieve increased returns for shareholders.

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

The capital risk management policy remains unchanged from the 30 June 2015 Annual Report.

Note 12. Equity - reserves

	Consolidated	
	31 Dec 2015 $'000	**30 Jun 2015 $'000**
Share based payments reserves	2,372	1,063
	2,372	1,063

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

Consolidated	**Foreign currency $'000**	**Share based payments $'000**	**Total $'000**
Balance at 1 July 2015	-	1,063	1,063
Lapsed options	-	-	-
Share based payments	-	1,309	1,309
Balance as at 31 December 2015	-	2,372	2,372

Note 13. Equity - dividends

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

Note 14. Contingent liabilities

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

Note 15. Commitments

	Consolidated	
	31 Dec 2015 $'000	30 Jun 2015 $'000
Operating leases (non-cancellable)		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	202	212
One to five years	540	636
More than five years	-	-
	742	848

There is no material change to the commitments since those disclosed in the financial report for the year ended 30 June 2015.

Note 16. Related party transactions

Parent Entity
Clean TeQ Holdings Limited is the Parent Entity.

Subsidiaries
Interests in subsidiaries are set out in note 17.

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

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

Note 17. Interests in subsidiaries

The Consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

		Ownership interest	
		31 Dec	30 Jun
	Principal place of business/	2015	2015
Name	Country of incorporation	%	%
CleanTeq Limited	Australia	100%	100%
CleanTeQ Metals Pty Ltd	Australia	100%	100%
Clean TeQ Water Pty Ltd	Australia	100%	100%
Clean Teq Air Pty Ltd*	Australia	-%	-%
Associated Water Pty Ltd	Australia	100%	100%
LiXiR Functional Foods Pty Ltd	Australia	100%	100%
Clean World Japan	Japan	100%	100%
Scandium Holding Company Pty Ltd**	Australia	100%	100%
Scandium21 Pty Ltd**	Australia	100%	100%
Syerston Scandium Pty Ltd**	Australia	100%	100%
Uranium Development Pty Ltd**	Australia	100%	100%

*This company changed its name to Clean Teq Aromatrix Pty Ltd in January 2015. The whole shareholding in the company was sold as at 30 June 2015. Refer note 6 for details.
**These companies were acquired as part of the acquisition of the Syerston Project from a subsidiary of Ivanhoe Mines Ltd effective 31 March 2015.

Note 18. Events after the reporting period

No matter or circumstance has arisen since 31 December 2015 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Note 19. Share-based payments

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

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

2015 Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/07/2010*	01/07/2015	$0.34	10,000	-	-	(10,000)	-
30/06/2011	30/06/2016	$0.40	500,000	-	-	-	500,000
15/11/2012*	30/11/2015	$0.19	1,500,000	-	-	(1,500,000)	-
19/12/2014	19/06/2017	$0.12	2,000,000	-	-	-	2,000,000
19/12/2014	19/06/2017	$0.15	2,000,000	-	-	-	2,000,000
25/02/2015	25/02/2018	$0.16	8,000,000	-	-	-	8,000,000
01/03/2015	01/03/2018	$0.15	6,000,000	-	-	-	6,000,000
06/07/2015	30/06/2018	$0.30	-	1,000,000	-	-	1,000,000
20/11/2015	30/06/2018	$0.23	-	8,000,000	-	-	8,000,000
20/11/2015	31/03/2018	$0.15	-	2,000,000	-	-	2,000,000
20/11/2015	30/11/2018	$0.27	-	3,500,000	-	-	3,500,000
			20,010,000	14,500,000	-	(1,510,000)	33,000,000
Weighted average exercise price:			$0.15	$0.23	-	$0.19	$0.19

* Options expired during the year

The weighted average number of years for share options issued under the Plan is 2.84 years (2015: 2.73 years).

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
06/07/2015	30/06/2018	$0.23	$0.30	81.57%	-%	1.93%	$0.011
20/11/2015	30/06/2018	$0.18	$0.23	83.74%	-%	2.14%	$0.085
20/11/2015	31/03/2018	$0.18	$0.15	83.10%	-%	2.14%	$0.010
20/11/2015	30/11/2018	$0.18	$0.27	82.20%	-%	2.14%	$0.067

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

2015 Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
09/07/2015	01/07/2018	$0.00	-	1,674,416	-	-	1,674,416
25/11/2015	01/07/2018	$0.00	-	880,000	-	-	880,000
			-	2,554,416	-	-	2,554,416

Note 19. Share-based payments (continued)

The Performance Rights have the following vesting conditions:

- Rights vesting if the Company's total shareholder return outperforms a comparator group of 12 ASX-listed and 1 Toronto listed companies over a three year period from 1 July 2015 to 30 June 2018; and
- Continuous service from Date of Grant to Vesting Date.

For the performance rights granted during the current financial period, a Binomial Option Valuation was used to value the performance rights. Each Performance Right, once vested, entitles the Performance Right holder to receive one fully paid ordinary share in the Company for zero consideration. The valuation model inputs used to determine the fair value at the grant date are as follows:

Grant date	Expiry date	Share price at grant date	Risk-free interest rate	Expected volatility	Dividend yield	Vesting Probability	Fair value at grant date
09/07/2015	01/07/2018	$0.24	2.07%	84.00%	-%	35%	$0.086
25/11/2015	01/07/2018	$0.19	2.13%	83.50%	-%	35%	$0.065

Note 20. Fair value measurement

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

Unless otherwise stated, and except for notes payable as disclosed in the annual report for the year ended 30 June 2015, the carrying amounts of financial instruments reflect their fair value. The carrying amount of cash and cash equivalents, trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

Clean TeQ Holdings Limited
Directors' declaration
31 December 2015

In the directors' opinion:

- the attached consolidated financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the Consolidated Entity's financial position as at 31 December 2015 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors

____
Sam Riggall
Chairman and Chief Executive Officer

17 February 2016
Melbourne

KPMG

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

We have reviewed the accompanying half-year financial report of Clean TeQ Holdings Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2015, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 20 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standards on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Clean TeQ Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Clean TeQ Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter – going concern

Without modifying our conclusion we draw attention to Note 2 under the heading "Going Concern" which indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

KPMG

Dana Bentley
Partner

Melbourne

17 February 2016