



**CLEAN TEQ HOLDINGS LIMITED**

ABN 34 127 457 916

AND ITS CONTROLLED ENTITIES

**FINANCIAL REPORT**

FOR THE YEAR ENDED 30 JUNE 2009

# CLEAN TEQ HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

## DIRECTORS' REPORT

The directors present their report together with the financial report of Clean TeQ Holdings Limited ("the Company") and of the Group being the Company and its subsidiaries for the financial year ended 30 June 2009 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.

#### **Ralph Pliner** (Independent Non-Executive Chairman)

Ralph Pliner was appointed Chairman of the Board on 24 September 2007. He is a member of the Audit, Nomination and Remuneration and Market Disclosure Committees.

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 11 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.

#### **Greg Toll** (Executive Director and Chief Executive Officer)

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.

A shareholder in Clean TeQ, Greg is responsible for the operations of the business and oversees all operational and administration functions. 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)

Peter Voigt established Clean TeQ in 1990 and is Clean TeQ's Chief Technology Officer, responsible for all research and development activities and the negotiation and management of overseas licenses.

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 Royal Melbourne Institute of Technology. Peter became a Director of the Company on the date of its incorporation, 10 September 2007.

#### **Jeremy Carter** (Executive Director)

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. In recent times Jeremy's role in the Company has changed

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to reflect Clean TeQ's evolution and he remains actively involved in strategy and business development of the Company. Jeremy was first appointed to the Board on 10 September 2007.

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

#### **Barry Lewin** (Non-Executive Director)

Barry Lewin was appointed to the Board on 24 September 2007.

Barry is the founder and managing director of SLM Corporate Ltd, a corporate advisory firm based in Melbourne. Barry has significant public company experience, including roles as Legal Counsel of Energy Resources of Australia Limited (1991-1994) and General Counsel, Company Secretary and a member of the Executive Committee of North Limited (1994-1999). He is Chair of the Audit and Nomination and Remuneration Committees. Barry is a member of the Market Disclosure Committee.

Barry has degrees in Commerce and Law from the University of Cape Town in South Africa and has an MBA from Swinburne University, Melbourne.

#### **Marc Lichtenstein** B.Bus., CA, GAICD, ACIS (Company Secretary and Chief Financial Officer)

Marc was appointed to the position of Company Secretary on 10 September 2007. 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 from RMIT. 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 Meetings		Remuneration & Nomination Committee Meeting		Market Disclosure Committee Meeting	
	A	B	A	B	A	B	A	B
Ralph Pliner	9	9	4	4	2	2	2	2
Greg Toll	9	9	-	-	-	-	2	2
Peter Voigt	8	9	-	-	-	-	-	-
Jeremy Carter	5	9	-	-	1	2	-	-
Barry Lewin	9	9	4	4	2	2	2	2

**A = Number of meetings Attended**

**B = Number of meetings held during the time the director held office during the year.**

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## DIRECTORS' REPORT

### 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. That 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 now 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.

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### 2. Structure the Board to Add Value.

Currently one of the two Non-Executive Directors satisfies the test of independence. The other Non-Executive Director does not satisfy the test of independence as he is the principal of a material professional advisor associated with the listing of the Company on the Australian Stock Exchange and provision of corporate advisory services. Three 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 an independent Non-Executive Director. The roles of Chairperson and Chief Executive Officer are not exercised by the same person. These roles are exercised by Ralph Pliner who acts as the Chairperson, whilst Greg Toll acts as 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 Chairperson, 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 Chairperson'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 key executives is reviewed on an annual basis both collectively and individually. The performance criteria take into account each Director 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 key 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 key 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 key executives within the organisation.

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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;

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- 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 fully-informed 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 only two Non-Executive Directors. The Company does not fully comply with the recommendation in that it has a small board. Whilst all of the members of the Committee are currently Non-Executive Directors only one of the members is considered to be independent. 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 Chairperson of the Board.

The Committee members during the year were:

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- Barry Lewin (Chairman) (appointed 24 September 2007) – Non-Executive
- Ralph Pliner (appointed 24 September 2007) – 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 ongoing requirements 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 met with the Audit Committee once during the year without management being present.

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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 2009 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) (appointed 24 September 2007)
- Barry Lewin (appointed 24 September 2007)
- Greg Toll (appointed 24 September 2007)

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;

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- 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.

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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 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

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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:

- Barry Lewin (Chairman) (appointed 24 September 2007)
- Ralph Pliner (appointed 24 September 2007)
- Jeremy Carter (appointed 24 September 2007)

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, Greg Toll, 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 a 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;
- Purification and recycling of waste water and for desalination of brackish water to produce high quality industrial water using the Clean-iX® Technology in conjunction with other technologies; 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.

The consolidated profit of the Company for the year after providing for income tax amounted to \$511,147. The consolidated entity has generated a return on net assets of 4.05% for the current period.

During the course of the period under review the Company experienced difficult trading conditions as a result of the global economic crisis. During this period the Company has continued to invest in its people and

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research and development which is expected to keep the Company at the forefront of its industries in the future. Revenue during the period has decreased by 44% compared to the corresponding prior year period. The net profit after tax has decreased by 83%.

### Review of operations

Revenue from the Air Division has increased by 9% during the current financial year. The number of projects undertaken and success rate of projects tendered for by the Air Purification Division continued to increase during the period.

The Resource Recovery Division has experienced a difficult trading period with a number of contracts being postponed or cancelled during the period. The business unit was relocated to Perth in June 2009 to be closer to its customers. During the period the Resource Recovery Division has continued to explore opportunities for the use of its Clean-iX® Resin-In-Pulp technology in the mining industry for uranium and gold projects. This business unit is still in the early stages of its development.

During the period under review the Water Purification Division continued its development. It invested in further research and development, including the winning of the Climate Ready Grant of \$999,903 for work on the development of Clean-iX® pre-treatment for membrane systems. This Division has expanded into China with the award of the design, supply and construction of 3 wastewater treatment plants in Putian, China. Revenue from these contracts will be earned in the 2010 financial year. This business unit is still in the early stages of its development. The growth in the Water Purification Division is expected to continue during the 2010 financial year and beyond.

The Company began sales of LiXiR via the website [www.lixirproducts.com](http://www.lixirproducts.com) during the year. LiXiR is a nutritional supplement that contains natural trans-resveratrol and Clean TeQ's proprietary Australian red grape skin extract, which is designed as a well being product. Clean-iX® technology was used for the extraction of the grape skin extract.

All three of the key divisions continue to have a significant pipeline of current and future business opportunities. Furthermore, at 1 July 2009 the Company had its largest order book on record.

### Review of financial condition

During the period under review the Company has continued to generate positive cash flows from operations and has been profitable. The Company has continued to invest in research and development during the financial year as a result of which negative cash flows were experienced by the Company. The Company continues to experience a significant pipeline of potential future business opportunities in all areas.

### Liquidity and funding

At the 30 June 2009 and to the date of this report the Group continues to have minimal external debt and thus is not directly exposed to the impact of interest rate movements or the impact of world credit markets. The decrease in interest rates, which were not forecast by the Company, has decreased the interest income earnings of the Group during the current period. At 30 June 2009 the Company had cash on hand of \$5,195,913. An amount of \$1.676 million is placed on fixed deposit and provided as security for bank guarantees for work-in-progress.

### Cash flows from operations

The consolidated entity has continued to deliver positive cash flows from its operating activities during the financial year ending 30 June 2009. Cash from operations of \$1,546,977 were generated during the current period.

### Significant changes in the state of affairs

On 16 April 2009 and 1 May 2009 Lixir Functional Foods Pty Ltd and Clean TeQ Water Pty Ltd were incorporated. Both of these entities were dormant during the 2009 financial year.

# CLEAN TEQ HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

## DIRECTORS' REPORT

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 1 August 2009 the Company has entered into an agreement with UV-Guard Australia Pty Ltd to acquire all of the shares in this Company. 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.

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 continue to pursue its policy of increasing the profitability and market share of its major business units during the next financial year. This will require further ongoing investment in areas such as research and development, increases in staff numbers and increased sales activity across the entire business.

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's operations are 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
Ralph Pliner	50,000	195,000
Greg Toll	7,839,220	585,000
Peter Voigt	19,720,859	585,000
Jeremy Carter	5,740,310	234,000
Barry Lewin	200,000	97,500

### Shares issued on exercise of options

During or since the end of the financial year, Clean TeQ Holdings Limited has not issued any ordinary shares as a result of the exercise of options. There are no amounts unpaid on shares issued on exercise of options.

# CLEAN TEQ HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

## DIRECTORS' REPORT

### 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 Group.

### Auditor's independence declaration

A copy of the auditor's independence declaration in relation to the audit for the financial year ended 30 June 2009 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. In addition, amounts paid to other auditors for the statutory audit have been disclosed.

	Consolidated	
	2009	2008
	\$	\$
<b>Audit services</b>		
<i>Auditors of the Company</i>		
Pitcher Partners		
Audit and review of financial reports	104,500	86,420
Other Auditors		
Audit and review of financial reports	-	31,986
	<u>104,500</u>	<u>118,406</u>
<b>Other services</b>		
Pitcher Partners		
Other assurance services	-	79,585
Accounting standard advice	1,625	3,405
Taxation compliance services	19,625	3,000
	<u>21,250</u>	<u>85,990</u>

## **CLEAN TEQ HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES**

### **DIRECTORS' REPORT**

Other assurance services undertaken by Pitcher Partners include the completion of the Investigating Accountants Report included in the Company's prospectus dated 9 October 2007. Prior year comparatives relate to fees paid to BDO Kendalls, the consolidated entity's previous auditors.

# CLEAN TEQ HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

## DIRECTORS' REPORT

### 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.

As a result of the Company being incorporated and becoming a disclosing entity during the previous financial year the incentive structure of the Company has been established during the previous reporting period. Remuneration of Directors and executives is referred to as compensation as defined in AASB 124 *Related Party Disclosures*.

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.

## CLEAN TEQ HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

### DIRECTORS' REPORT

#### **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, 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.

The Nomination and Remuneration Committee recommends the cash incentive to be paid to the individuals for approval by the Board. The method of assessment was chosen as it provides the Committee with an objective assessment of the individual's performance. The final bonuses to be paid for the year ending 30 June 2009 were determined at the discretion of the Board after consideration of the guidance provided by the Nomination and Remuneration Committee.

#### **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.

# CLEAN TEQ HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

## DIRECTORS' REPORT

### 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. The evidence for this is firstly, the growth in the Group in recent years, and secondly, the performance-linked element of the structure appears to be appropriate because most but not all of the key management personnel achieve a level of performance which qualifies them for a bonus and or options. The Committee is currently reviewing the key performance indicators of the key management personnel and their performance-linked compensation structure.

In the current year the Group has not achieved its forecast earnings targets, with most segments not meeting budgeted results. This is the first 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.

	2009 \$'000's	2008 \$'000's
Net profit attributable to equity holders of the parent	\$511	\$2,924
Dividends paid *	-	\$1,200
Share price at year end	\$0.345	\$0.325
Change in share price**	\$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.

# CLEAN TEQ HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

## DIRECTORS' REPORT

### 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 Chairperson presently receives twice the base fee being \$100,000. 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 provided above. The named executives in the consolidated group who received the highest remuneration for the financial year were:

<b>Executives</b>	<b>Position</b>
Greg Toll	Chief Executive Officer
Peter Voigt	Executive Director
Jeremy Carter	Executive Director
Marc Lichtenstein	Company Secretary and Chief Financial Officer

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.

**CLEAN TEQ HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES**

**DIRECTORS' REPORT**

**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			Post employment	Other long term benefits	Termination benefits	Share based payments		TOTAL
	Salary & fees	STI Cash bonus	Non-monetary benefits	Super-annuation benefits			Options	Shares	
	\$	\$ (A)	\$	\$	\$	\$	\$ (B)	\$ (C)	\$
Ralph Pliner									
2009	100,000	-	-	-	-	-	2,107	-	102,107
2008	83,330	-	-	-	-	-	7,642	-	90,972
Greg Toll									
2009	264,000	-	-	26,460	-	-	6,320	1,000	297,780
2008	234,404	30,000	17,976	22,672	-	-	22,926	-	327,978
Peter Voigt									
2009	264,000	-	-	26,460	-	-	6,320	1,000	297,780
2008	249,411	30,000	6,927	22,672	-	-	22,926	-	331,936
Jeremy Carter									
2009	115,104	-	-	-	-	-	2,528	-	117,632
2008	116,667	12,000	-	2,250	-	-	9,170	-	140,087
Barry Lewin									
2009	45,872	-	-	4,128	-	-	1,053	-	51,053
2008	38,226	-	-	3,440	-	-	3,821	-	45,487
2009	788,976	-	-	57,048	-	-	18,328	2,000	866,352
2008	722,038	72,000	24,903	51,034	-	-	66,485	-	936,460

**Executives' remuneration - audited**

	Short-term			Post employment	Other long term benefits	Termination benefits	Share based payments	TOTAL
	Salary & fees	STI Cash bonus	Non-monetary benefits	Super-annuation benefits			Options	
	\$	\$ (A)	\$	\$	\$	\$	\$ (B)	\$
Marc Lichtenstein								
2009	225,897	-	-	15,995	-	-	5,266	247,158
2008	121,254	25,000	11,582	8,269	-	-	19,105	185,210

As a result of the reverse acquisition all key management personnel were appointed during the course of the previous financial year in the parent entity. All remuneration payments to key management personnel are based on payments made by the Group for the full 12 month period.

(A) The short-term incentive bonus is for performance during the respective financial year using the criteria set out earlier in the Remuneration Report. The amount was finally determined on 29 July 2009 and 30 July 2008 respectively after performance reviews were completed and approved by the Nomination and Remuneration Committee.

## CLEAN TEQ HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

### DIRECTORS' REPORT

(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.

(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.

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

Grant Date	Expiry Date	Fair Value Per Option	Exercise Price	Price of Shares on Grant Date	Estimated Volatility	Risk Free Interest Rate	Dividend Yield
9 November 2007	9 November 2010	10.4 cents	\$0.50	\$0.50	24%	6.25%	-
9 November 2007	9 November 2011	2.3 cents	\$0.55	\$0.50	24%	6.25%	-
9 November 2007	9 November 2012	2.8 cents	\$0.60	\$0.50	24%	6.25%	-

There were no other key management personnel employed by the company or the Group in the 2009 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 2009	Proportion of remuneration package performance related 2008	Value of options as proportion of remuneration 2009	Value of options as proportion of remuneration 2008
<b>Directors</b>				
Ralph Pliner	-	-	2.1%	8.4%
Greg Toll	16.8%	9.1%	2.1%	7.0%
Peter Voigt	16.8%	9.0%	2.1%	6.9%
Jeremy Carter	14.5%	8.6%	2.1%	6.5%
Barry Lewin	-	-	2.1%	8.4%
<b>Executives</b>				
Marc Lichtenstein	16.2%	13.5%	2.1%	10.3%

#### 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

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each Director of the Company and each of the key management personnel are detailed below.

# CLEAN TEQ HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

## DIRECTORS' REPORT

	Included in remuneration package \$ (A)	Short term incentive bonus % vested in year	% forfeited in year (B)
<b>Directors</b>			
Ralph Pliner	-	-	-
Greg Toll	50,000	-	100%
Peter Voigt	50,000	-	100%
Jeremy Carter	20,000	-	100%
Barry Lewin	-	-	-
<b>Executives</b>			
Marc Lichtenstein	40,000	-	100%

(A) Amounts included in the remuneration package for the financial year represents the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2009 financial year.

(B) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

### Equity instruments - audited

During the course of the previous 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

## CLEAN TEQ HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

### DIRECTORS' REPORT

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.

During the course of the current financial year the Company has 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 2008	Grant Date	Fair value per option at grant (\$)	Exercise price per option (\$)	Expiry Date	Number of options vested during 2009
<b>Directors</b>						
Ralph Pliner	65,000	9 November 2007	0.104	0.50	9 November 2010	-
	65,000	9 November 2007	0.023	0.55	9 November 2011	65,000
	65,000	9 November 2007	0.028	0.60	9 November 2012	-
Greg Toll	195,000	9 November 2007	0.104	0.50	9 November 2010	-
	195,000	9 November 2007	0.023	0.55	9 November 2011	195,000
	195,000	9 November 2007	0.028	0.60	9 November 2012	-
Peter Voigt	195,000	9 November 2007	0.104	0.50	9 November 2010	-
	195,000	9 November 2007	0.023	0.55	9 November 2011	195,000
	195,000	9 November 2007	0.028	0.60	9 November 2012	-
Jeremy Carter	78,000	9 November 2007	0.104	0.50	9 November 2010	-
	78,000	9 November 2007	0.023	0.55	9 November 2011	78,000
	78,000	9 November 2007	0.028	0.60	9 November 2012	-
Barry Lewin	32,500	9 November 2007	0.104	0.50	9 November 2010	-
	32,500	9 November 2007	0.023	0.55	9 November 2011	32,500
	32,500	9 November 2007	0.028	0.60	9 November 2012	-
<b>Executives</b>						
Marc Lichtenstein	162,500	9 November 2007	0.104	0.50	9 November 2010	-
	162,500	9 November 2007	0.023	0.55	9 November 2011	162,500
	162,500	9 November 2007	0.028	0.60	9 November 2012	-

No options have been granted during the 2009 financial year or since the end of the 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.

The Company agreed to initially offer the options under the Plan, which were issued immediately prior to the listing of the Company on the Australian Stock Exchange in November 2007. The options will be 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

## CLEAN TEQ HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

### DIRECTORS' REPORT

- (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.

No other conditions attach to the exercise of the options which are the subject of this grant.

There were no options exercised in or since the end of the current financial year.

#### **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 no 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.

	<b>Number of options granted</b>	<b>Grant Date</b>	<b>% vested in year</b>	<b>% forfeited in year (A)</b>	<b>Financial years in which grant vests</b>
<b>Directors</b>					
Ralph Pliner	65,000	9 November 2007	100	-	1 July 2007
	65,000	9 November 2007	100	-	1 July 2008
	65,000	9 November 2007	-	-	1 July 2009
Greg Toll	195,000	9 November 2007	100	-	1 July 2007
	195,000	9 November 2007	100	-	1 July 2008
	195,000	9 November 2007	-	-	1 July 2009
Peter Voigt	195,000	9 November 2007	100	-	1 July 2007
	195,000	9 November 2007	100	-	1 July 2008
	195,000	9 November 2007	-	-	1 July 2009
Jeremy Carter	78,000	9 November 2007	100	-	1 July 2007
	78,000	9 November 2007	100	-	1 July 2008
	78,000	9 November 2007	-	-	1 July 2009
Barry Lewin	32,500	9 November 2007	100	-	1 July 2007
	32,500	9 November 2007	100	-	1 July 2008
	32,500	9 November 2007	-	-	1 July 2009
<b>Executives</b>					
Marc Lichtenstein	162,500	9 November 2007	100	-	1 July 2007
	162,500	9 November 2007	100	-	1 July 2008
	162,500	9 November 2007	-	-	1 July 2009

- (A) The % forfeited in the year represents the reduction from the maximum number of options available to vest due to the highest level performance criteria not being achieved.

#### **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.

**CLEAN TEQ HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES**

**DIRECTORS' REPORT**

	Value of Options		
	Granted in Year \$ (A)	Exercised in year \$ (B)	Lapsed in year \$ (C)
Greg Toll	-	-	-
Peter Voigt	-	-	-
Jeremy Carter	-	-	-
Marc Lichtenstein	-	-	-

- (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 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 benefit forgone and is calculated at the date the option lapsed using a binominal option-pricing model assuming the performance criteria had been achieved. No options lapsed in the year.

**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 2010	\$0.50	955,000	18 August 2012	\$0.42	10,000
9 November 2011	\$0.55	955,000	18 August 2013	\$0.46	10,000
9 November 2012	\$0.60	955,000	1 September 2011	\$0.40	15,000
24 April 2011	\$0.335	10,000	1 September 2012	\$0.44	15,000
24 April 2012	\$0.37	10,000	1 September 2013	\$0.48	15,000
24 April 2013	\$0.41	10,000	1 January 2012	\$0.39	20,000
7 May 2011	\$0.335	10,000	1 January 2013	\$0.42	20,000
7 May 2012	\$0.36	10,000	1 January 2014	\$0.47	20,000
7 May 2013	\$0.40	10,000	16 March 2012	\$0.17	50,000
20 May 2011	\$0.41	20,000	16 March 2013	\$0.18	50,000
20 May 2012	\$0.45	20,000	16 March 2014	\$0.20	50,000
20 May 2013	\$0.50	20,000	1 April 2012	\$0.19	20,000
3 June 2011	\$0.37	50,000	1 April 2013	\$0.21	20,000
3 June 2012	\$0.41	50,000	1 April 2014	\$0.23	20,000
3 June 2013	\$0.45	50,000	20 April 2012	\$0.20	20,000
1 July 2012	\$0.36	105,000	20 April 2013	\$0.22	20,000
29 July 2011	\$0.37	15,000	20 April 2014	\$0.24	20,000
29 July 2012	\$0.41	15,000	22 June 2012	\$0.33	30,000
29 July 2013	\$0.45	15,000	22 June 2013	\$0.36	30,000
18 August 2011	\$0.38	10,000	22 June 2014	\$0.40	30,000
<b>Total outstanding options</b>					<b><u><u>3,780,000</u></u></b>

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

**CLEAN TEQ HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES**

**DIRECTORS' REPORT**

**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.

A handwritten signature in black ink, appearing to read 'Greg Toll', is written over a faint, light-colored rectangular stamp or watermark.

Greg Toll  
Director  
Melbourne  
26 August 2009


**AUDITOR'S INDEPENDENCE DECLARATION**  
**To the Directors of Clean TeQ Holdings Limited.**

In relation to the independent audit for the year ended 30 June 2009, 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  
26 August 2009



PITCHER PARTNERS  
Melbourne

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

**INCOME STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2009**

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue	2	8,552	15,219	67	15
Changes in inventories of finished goods		-	102	-	-
Raw materials used and other direct costs		(4,501)	(7,164)	-	-
Employee benefits expense	3	(2,489)	(2,433)	-	-
Depreciation and amortisation expenses	3	(452)	(866)	-	-
Administration expenses		(406)	(393)	(203)	(103)
Marketing expenses		(202)	(100)	-	-
Finance costs	3	(2)	(2)	-	-
Other expenses		(262)	(449)	(53)	(10)
<b>Profit / (Loss) before income tax expenses</b>		238	3,914	(189)	(98)
Income tax (expense) / benefit	4	273	(990)	57	29
<b>Profit / (Loss) from continuing operations</b>		511	2,924	(132)	(69)
<b>Profit / (Loss) attributable to the members of the parent</b>		511	2,924	(132)	(69)
Earnings per share					
Basic (cents per share)	22	0.90	6.98		
Diluted (cents per share)	22	0.85	6.67		

The accompanying notes form part of these financial statements.

**CLEAN TEQ HOLDINGS LIMITED**  
**ABN 34 127 457 916**  
**AND ITS CONTROLLED ENTITIES**  
**BALANCE SHEET**  
**AS AT 30 JUNE 2009**

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	6	5,196	6,544	2,024	-
Trade and other receivables	7	1,539	964	1,094	591
Inventories	8	1,575	568	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>8,310</b>	<b>8,076</b>	<b>3,118</b>	<b>591</b>
<b>NON-CURRENT ASSETS</b>					
Deferred tax assets	9	1,321	374	1,229	299
Financial assets	10	-	-	3,911	7,143
Plant and equipment	11	219	175	-	-
Intangible assets	12	8,925	6,509	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>10,465</b>	<b>7,058</b>	<b>5,140</b>	<b>7,442</b>
<b>TOTAL ASSETS</b>		<b>18,775</b>	<b>15,134</b>	<b>8,258</b>	<b>8,033</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Trade and other payables	13	2,280	552	760	-
Loans and borrowings	14	14	12	-	-
Current tax liabilities	15	-	488	-	488
Employee benefits	16	249	120	-	-
Other liabilities	17	1,024	12	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>3,567</b>	<b>1,184</b>	<b>760</b>	<b>488</b>
<b>NON-CURRENT LIABILITIES</b>					
Loans and borrowings	14	32	17	-	-
Deferred tax liabilities	9	2,508	1,832	10	-
Employee benefits	16	57	76	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>2,597</b>	<b>1,925</b>	<b>10</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>6,164</b>	<b>3,109</b>	<b>770</b>	<b>488</b>
<b>NET ASSETS</b>		<b>12,611</b>	<b>12,025</b>	<b>7,488</b>	<b>7,545</b>
<b>EQUITY</b>					
Issued capital	18	7,502	7,488	7,502	7,488
Retained earnings / (losses)	19	4,922	4,411	(201)	(69)
Share option reserve	20	187	126	187	126
<b>TOTAL EQUITY</b>		<b>12,611</b>	<b>12,025</b>	<b>7,488</b>	<b>7,545</b>

The accompanying notes form part of these financial statements.

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

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2009**

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Receipts from customers		8,400	15,816	-	-
Payments to suppliers and employees		(6,671)	(11,925)	(288)	(113)
Interest received		305	347	67	15
Borrowing costs paid		(2)	(2)	-	-
Tax refund received / (paid)		(486)	2	-	-
<b>Net cash provided by/(used in) operating activities</b>	21(a)	<b>1,546</b>	<b>4,238</b>	<b>(221)</b>	<b>(98)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of plant and equipment		-	4	-	-
Acquisition of plant and equipment	11	(117)	(147)	-	-
Investment in subsidiaries	25	-	-	*	-
Advances from/(to) related entities		-	-	2,245	(4,908)
Development expenditure acquired	12	(2,602)	(1,652)	-	-
Acquisition of other intangibles	12	(193)	(174)	-	-
<b>Net cash provided by/(used in) investing activities</b>		<b>(2,912)</b>	<b>(1,969)</b>	<b>2,245</b>	<b>(4,908)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Proceeds from the issue of share capital		-	6,250	-	6,250
Capital raising costs		-	(1,244)	-	(1,244)
Repayment of borrowings		-	(658)	-	-
Receipt from / (payment of) finance lease		(4)	15	-	-
Receipt from / (payment of) hire purchase liabilities		22	(7)	-	-
Dividends paid		-	(1,200)	-	-
<b>Net cash provided by / (used in) financing activities</b>		<b>18</b>	<b>3,156</b>	<b>-</b>	<b>5,006</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(1,348)</b>	<b>5,425</b>	<b>2,024</b>	<b>-</b>
Cash and cash equivalents at beginning of year		6,544	1,119	-	-
<b>Cash and cash equivalents at end of year</b>	21 (b)	<b>5,196</b>	<b>6,544</b>	<b>2,024</b>	<b>-</b>

\*- less than \$500

The accompanying notes form part of these financial statements.

**CLEAN TEQ HOLDINGS LIMITED**  
**ABN 34 127 457 916**

**AND ITS CONTROLLED ENTITIES**

**STATEMENT OF CHANGES IN EQUITY**  
**ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT**  
**FOR THE YEAR ENDED 30 JUNE 2009**

**Consolidated**

Note	Issued Capital	Retained earnings	Share Options Reserve	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2007	2,109	2,687	-	4,796
Shares issued	6,250	-	-	6,250
Share based payments	-	-	126	126
Transaction costs relating to share issue net of income tax	(871)	-	-	(871)
Profit for the period	-	2,924	-	2,924
Dividend paid	-	(1,200)	-	(1,200)
<b>Balance at 30 June 2008</b>	<b>7,488</b>	<b>4,411</b>	<b>126</b>	<b>12,025</b>
Balance at 1 July 2008	7,488	4,411	126	12,025
Shares issued 18	14	-	-	14
Share based payments 20	-	-	61	61
Profit for the period 19	-	511	-	511
<b>Balance at 30 June 2009</b>	<b>7,502</b>	<b>4,922</b>	<b>187</b>	<b>12,611</b>

**The Company**

	Issued Capital	Retained earnings	Share Options Reserve	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2007	-	-	-	-
Shares issued	8,359	-	-	8,359
Transaction costs relating to share issue net of income tax	(871)	-	-	(871)
Share based payments	-	-	126	126
Loss for the period	-	(69)	-	(69)
<b>Balance at 30 June 2008</b>	<b>7,488</b>	<b>(69)</b>	<b>126</b>	<b>7,545</b>
Balance at 1 July 2008	7,488	(69)	126	7,545
Shares issued 18	14	-	-	14
Share based payments 20	-	-	61	61
Loss for the period 19	-	(132)	-	(132)
<b>Balance at 30 June 2009</b>	<b>7,502</b>	<b>(201)</b>	<b>187</b>	<b>7,488</b>

The accompanying notes form part of these financial statements.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**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 2009 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 26 August 2009.

**(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 of the consolidated entity and the financial report of the Company comply 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) 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.

**CLEAN TEQ HOLDINGS LIMITED  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

When a subsidiary makes a new issue of capital and the consolidated entity's percentage ownership changes, the share of retained profits and reserves is attributed to the Company and outside equity interest reflecting the new ownership interest. The adjustment is not reflected in net profit but as a direct adjustment to the specific equity accounts.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements. The cost of acquisition has been determined by applying AASB 3 *Business Combinations* using reverse acquisition principles. Refer to Note 24 for further disclosures in relation to the effect of the reverse acquisition.

**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. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(d) 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.

**CLEAN TEQ HOLDINGS LIMITED  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**Dividends**

Revenue from dividends and distribution from controlled entities are recognised by the parent entity when they are declared by the controlled entities.

Dividends received out of pre-acquisition reserves are eliminated against the carrying amount of the investment and not recognised in revenue.

**Technology licensing income**

Technology licensing income is recognised based on the substance of the contractual arrangements entered into. Up front 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.

**(e) 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.

**Net financing costs**

Net 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 net financing costs.

**CLEAN TEQ HOLDINGS LIMITED**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2009**

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

**(f) 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 balance sheet.

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.

**(g) 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.

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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

**Tax consolidation**

The Company and its wholly-owned Australian resident entities, upon lodgement of the financial year ended 30 June 2008 income tax return, formed an income tax-consolidated group under the tax consolidation legislation with retrospective application from September 2007 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Clean TeQ Holdings Limited.

**CLEAN TEQ HOLDINGS LIMITED**  
**ABN 34 127 457 916**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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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 upon lodgement of the 2008 income tax return 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 upon lodgement of the 2008 income tax return. 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.

**(h) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, short term bills and call deposits. 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.

**(i) Trade and other receivables**

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

**(j) 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

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case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

**(k) 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 based on normal operating capacity.

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

**(l) 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 (o)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in profit or loss as incurred.

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. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

**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 balance sheet.

**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

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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.

**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 unless it is reasonably certain that the consolidated entity will obtain ownership by the end of the lease term.

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

▪ Factory equipment	2½ - 20 years	Diminishing value
▪ Office furniture and equipment	2½ - 20 years	Diminishing value
▪ Capitalised leased assets	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.

**(m) 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. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

**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.

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**Amortisation**

Intangible assets other than capitalised development costs 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    |

**(n) 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.

**(o) 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 the estimates used to determine the recoverable amount. 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.

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**(p) 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.

**(q) 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 with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

**(r) Share capital**

**Ordinary share capital**

Ordinary shares are classified as equity. Incremental 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.

**(s) Employee benefits**

**Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a personnel expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

**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 sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

**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.

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**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.

AASB Interpretation 11 AASB 2: *Group and Treasury Share Transactions* deals with the treatment of share based transactions involving the equity instruments of the Company, has been applied by the consolidated entity in relation to its share option programme for employees. Accordingly, 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.

**(t) Provisions**

A provision is recognised in the balance sheet 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.

**(u) Segment reporting**

A segment is a distinguishable component of the consolidated entity that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the consolidated entity's business segments. The consolidated entity's primary format for segment reporting is based on business segments. The business segments are determined based on the consolidated entity's management and internal reporting structure.

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.

**(v) 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

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shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

**(w) Comparatives**

The financial report of Clean TeQ Holdings Limited and its controlled entities, for the period ending 30 June 2008, includes the operations of Clean TeQ Holdings Limited, the economic entity. As a result of Clean TeQ Holdings being incorporated on 10 September 2007 there are no comparatives for the Company prior to this date. Further details of the Group's corporate restructure are contained in Note 24.

**(x) 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 2009, but have not been applied in preparing this financial report:

- Revised AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone. The revised standard becomes mandatory for the Group's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity's financial report.
- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard is only concerned with disclosures.
- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the Group's disclosures.
- Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the consolidated entity's 30 June 2010 financial statements and will constitute a change in accounting policy for the consolidated entity. In accordance with the transitional provisions the consolidated entity will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The consolidated entity has not yet determined the potential effect of the revised standard on future earnings.
- AASB 2008-1 *Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations* changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the amending standard on the consolidated entity's financial report.

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- Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity's financial report.
- AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Process* and 2008-6 *Further Amendments to Australian Accounting Standards arising from The Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the consolidated entity's 30 June 2010 financial statements, are not expected to have any impact on the financial statements.
- AASB 2008-7 *Amendments to Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* changes the recognition and measurement dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments become mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the amendments.

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**NOTE 2: REVENUE**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Sale of goods and services	7,085	12,231	-	-
Interest received	305	373	67	15
Licence revenue	1,084	2,145	-	-
Other revenue	78	470	-	-
<b>Total revenue</b>	<b>8,552</b>	<b>15,219</b>	<b>67</b>	<b>15</b>

**NOTE 3: PROFIT FROM CONTINUING OPERATIONS**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Profit from continuing operations before income tax expense has been determined after:				
<b>Expenses:</b>				
Cost of Sales	4,501	7,062	-	-
Finance costs				
- external	2	2	-	-
- other related parties	-	-	-	-
<b>Total finance costs</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>-</b>
Depreciation of non-current assets				
- factory equipment	6	5	-	-
- office equipment and furniture	61	41	-	-
- motor vehicles	4	3	-	-
- capitalised leased assets	2	1	-	-
<b>Total depreciation</b>	<b>73</b>	<b>50</b>	<b>-</b>	<b>-</b>
Amortisation of non current assets:				
- capitalised development costs	357	799	-	-
- other intangibles assets	22	17	-	-
<b>Total amortisation</b>	<b>379</b>	<b>816</b>	<b>-</b>	<b>-</b>
<b>Total depreciation and amortisation</b>	<b>452</b>	<b>866</b>	<b>-</b>	<b>-</b>
Employee benefit expenses:				
- wages and salaries	1,810	1,884	-	-
- employee entitlements expense including movements in provision for employee entitlements	111	75	-	-
- superannuation	165	152	-	-
- equity settled share based payments	75	126	-	-
- other costs	328	196	-	-
<b>Total employee benefit expenses</b>	<b>2,489</b>	<b>2,433</b>	<b>-</b>	<b>-</b>

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	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Rental expense on operating leases - minimum lease payments	84	109	-	-
Loss from disposal of plant and equipment	-	15	-	-

**NOTE 4: INCOME TAX**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Recognised in the income statement components of tax expense:</b>				
Current tax expense/(benefits)	-	860	-	(29)
Deferred tax	(271)	130	(57)	-
Over provision for prior year	(2)	-	-	-
Total income tax expenses/(benefits) in income statement	(273)	990	(57)	(29)
<b>(b) Numerical reconciliation between tax expense and pre-tax net profit</b>				
Profit/(loss) before tax	238	3,914	(189)	(98)
Income tax using the domestic corporation tax rate of 30% (2008: 30%)	71	1,174	(57)	(29)
<b>Increase in income tax due to:</b>				
Non-deductible expenses	27	38	-	-
<b>Decrease in income tax due to:</b>				
Concessional R&D deduction	(364)	(222)	-	-
Other concessional deduction	(7)	-	-	-
Income tax expense/(benefits) on pre-tax net profit	(273)	990	(57)	(29)
<b>(c) Deferred income tax related to items credited/(debited) directly to equity</b>				
Tax savings on equity raising cost	(75)	299	(75)	299

**NOTE 5: DIVIDENDS**

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

Dividends recognised in the previous financial year by the Group were:

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	Cents per share	Total amount	Franked / Unfranked	Date of Payment
Final 2007 ordinary	78	\$1,200,000	Unfranked	14 September 2007

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

**Dividend franking account**

30 per cent franking credits available to shareholders of Clean TeQ Holdings Limited for subsequent financial years

Consolidated		Company	
2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
495	495	495	495

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 (2008: \$494,928).

**NOTE 6: CASH AND CASH EQUIVALENTS**

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Cash at bank	1,496	2,544	-	-
Short-term deposits at bank	3,700	4,000	2,024	-
	<u>5,196</u>	<u>6,544</u>	<u>2,024</u>	<u>-</u>

The effective interest rate on short-term bank deposits at 30 June 2009 was 4% (2008:7.9%). These deposits have an average maturity of 60 to 90 days. An amount of \$1,676,000 (2008:\$1,000,000) is held on a short term deposit as security for any guarantees or short-term credit requirements of the Group.

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**NOTE 7: TRADE AND OTHER RECEIVABLES**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
CURRENT				
Trade debtors	1,426	922	-	-
Other debtors	113	42	32	-
Tax related intercompany receivable	-	-	-	591
Other intercompany receivable	-	-	1,062	-
	<b>1,539</b>	<b>964</b>	<b>1,094</b>	<b>591</b>

**NOTE 8: INVENTORIES**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Raw materials at net realisable value	390	348	-	-
Work in progress at cost	1,107	142	-	-
Finished goods at cost	78	78	-	-
	<b>1,575</b>	<b>568</b>	<b>-</b>	<b>-</b>

The balance of raw materials at 30 June 2009 includes \$608,013 (2008: \$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 \$303,500.

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**NOTE 9: DEFERRED TAX ASSETS AND LIABILITIES**

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Consolidated</b>						
Acquisition cost	4	-	-	-	4	-
Unearned interest	-	-	(14)	-	(14)	-
Plant and equipment	-	(6)	-	-	-	(6)
Intangible assets	-	-	(2,494)	(1,820)	(2,494)	(1,820)
Finance lease liabilities	-	5	-	-	-	5
Employee benefits	92	59	-	-	92	59
Provisions	-	17	-	(12)	-	5
Capital raising costs	224	299	-	-	224	299
Unused tax losses	1,001	-	-	-	1,001	-
Net tax assets / (liabilities)	1,321	374	(2,508)	(1,832)	(1,187)	(1,458)
<b>The Company</b>						
Acquisition cost	4	-	-	-	4	-
Unearned interest	-	-	(10)	-	(10)	-
Capital raising costs	224	299	-	-	224	299
Unused tax losses	1,001	-	-	-	1,001	-
Net tax assets / (liabilities)	1,229	299	(10)	-	1,219	299

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**NOTE 10: FINANCIAL ASSETS**

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
NON-CURRENT				
Investments:				
Investment in controlled entities at cost	-	-	2,235	2,235
Capital advanced to subsidiary (a)	-	-	1,676	4,908
	-	-	3,911	7,143

**(a) Movement in capital advanced to subsidiary**

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Balance at the beginning of the period	-	-	4,908	-
Capital advance to subsidiary	-	-	-	4,908
Capital advance returned from subsidiary	-	-	(1,989)	-
Transferred to current intercompany receivable	-	-	(1,243)	-
Balance at the end of the period	-	-	1,676	4,908

**NOTE 11: PLANT AND EQUIPMENT**

	Consolidated				
	Factory equipment \$'000	Office furniture and equipment \$'000	Motor vehicles \$'000	Capitalised leased assets \$'000	Total \$'000
<b>Cost</b>					
Balance at 1 July 2007	45	91	24	-	160
Acquisitions	26	100	-	21	147
Disposals / write offs	(34)	(7)	-	-	(41)
Balance at 30 June 2008	37	184	24	21	266
Balance at 1 July 2008	37	184	24	21	266
Acquisitions	5	83	29	-	117
Reclassification	(13)	13	-	-	-
Balance at 30 June 2009	29	280	53	21	383
<b>Depreciation</b>					
Balance at 1 July 2007	22	34	7	-	63
Depreciation for the year	5	41	3	1	50
Disposals / write offs	(15)	(7)	-	-	(22)
Balance at 30 June 2008	12	68	10	1	91

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	<b>Consolidated</b>				<b>Total</b>
	<b>Factory equipment</b>	<b>Office furniture and equipment</b>	<b>Motor vehicles</b>	<b>Capitalised leased assets</b>	
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Balance at 1 July 2008	12	68	10	1	91
Depreciation for the year	6	61	4	2	73
Reclassification	(9)	9	-	-	-
Balance at 30 June 2009	9	138	14	3	164
<b>Carrying amounts</b>					
At 30 June 2008	25	116	14	20	175
At 30 June 2009	20	142	39	18	219

The Company owns no plant and equipment in its own right.

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**NOTE 12: INTANGIBLE ASSETS**

	Consolidated			Total
	Capitalised Development Costs	Licenses	Patents and Trade marks	
	\$'000	\$'000	\$'000	\$'000
<b>Cost</b>				
Balance at 1 July 2007	6,553	21	292	6,866
Acquisitions - internally developed	1,652	-	-	1,652
Other acquisitions	-	100	74	174
Write-offs	(115)	-	-	(115)
<b>Balance at 30 June 2008</b>	<b>8,090</b>	<b>121</b>	<b>366</b>	<b>8,577</b>
Balance at 1 July 2008	8,090	121	366	8,577
Acquisitions - internally developed	2,602	-	-	2,602
Other acquisitions	-	-	193	193
<b>Balance at 30 June 2009</b>	<b>10,692</b>	<b>121</b>	<b>559</b>	<b>11,372</b>
<b>Amortisation</b>				
Balance at 1 July 2007	1,225	-	27	1,252
Amortisation for the year	799	-	17	816
<b>Balance at 30 June 2008</b>	<b>2,024</b>	<b>-</b>	<b>44</b>	<b>2,068</b>
Balance at 1 July 2008	2,024	-	44	2,068
Amortisation for the year	357	-	22	379
<b>Balance at 30 June 2009</b>	<b>2,381</b>	<b>-</b>	<b>66</b>	<b>2,447</b>
<b>Carrying amounts</b>				
<b>At 30 June 2008</b>	<b>6,066</b>	<b>121</b>	<b>322</b>	<b>6,509</b>
<b>At 30 June 2009</b>	<b>8,311</b>	<b>121</b>	<b>493</b>	<b>8,925</b>

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, amortisation has been recognised.

The recoverable amount of the intangible assets with an indefinite useful life has been tested for impairment based on value in use. Future cash flows have been estimated based on expected revenue to be derived based on past units sold and the market demand for such units.

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. Accordingly, an amount of \$115,313 has been expensed in the prior financial year. As a result of impairment testing no other impairment losses have been identified in the current or prior financial years.

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The Nickel Cobalt Resin-in-Pulp project is deemed to be material to the financial statements. The cost of this development project is \$2,923,903 and it is being amortised as income is received. It is expected that this project will be fully amortised in 2011 financial year.

The Clean-iX® Water Recycling project is also material to the financial statements. This project has a cost to date of \$1,572,570. The Capitalised Development Costs associated with the use of the Clean -iX® technology in the uranium resource recovery process of \$1,807,533 and the similar separation technology used to develop nutraceuticals with a capitalised cost incurred over a 5 year period of \$1,421,417 are material Capitalised Development Costs. These projects have not been commercialised to date and accordingly have not begun to be amortised at 30 June 2009. No other projects are deemed to be material to the financial statements.

The Company does not own any intangible assets in its own right.

**NOTE 13: TRADE AND OTHER PAYABLES**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
CURRENT				
Unsecured liabilities				
Trade creditors	2,011	259	-	-
Sundry creditors and accruals	269	293	-	-
Tax related intercompany payables	-	-	760	-
	<b>2,280</b>	<b>552</b>	<b>760</b>	<b>-</b>

The Company has entered into a Deed of Cross Guarantee with certain subsidiaries as described in note 35. 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 35.

**NOTE 14: LOANS AND BORROWINGS**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
CURRENT				
Secured liabilities				
Finance lease liability	5	5	-	-
Hire purchase liability	9	7	-	-
	<b>14</b>	<b>12</b>	<b>-</b>	<b>-</b>
NON-CURRENT				
Secured liabilities				
Finance lease liability	10	15	-	-
Hire purchase liability	22	2	-	-
	<b>32</b>	<b>17</b>	<b>-</b>	<b>-</b>

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**Finance Leases**

During the comparative financial year the consolidated entity has entered into a finance lease expiring within 4 years. The interest rate for the 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. The Company has no finance lease liabilities.

**Hire Purchases**

During the current financial year the consolidated entity has entered into a hire purchase expiring within 4 years. The interest rate for the hire purchase is 6.9%.

**NOTE 15: TAX LIABILITIES**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
CURRENT				
Income tax	-	488	-	488

The current tax liability for the consolidated entity and for the Company represents the amount of income taxes payable in respect of current and prior financial periods. In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current tax liability / (asset) initially recognised by the members in the tax-consolidated group.

**NOTE 16: EMPLOYEE BENEFITS**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
CURRENT				
Employee benefits				
Liability for long service leave	96	3	-	-
Liability for annual leave	153	117	-	-
	<u>249</u>	<u>120</u>	<u>-</u>	<u>-</u>
NON-CURRENT				
Employee benefits				
Liability for long service leave	57	76	-	-
Aggregate employee benefits liability	<u>306</u>	<u>196</u>	<u>-</u>	<u>-</u>
Employees at year end	<u>30</u>	<u>26</u>	<u>-</u>	<u>-</u>

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**NOTE 17: OTHER LIABILITIES**

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
CURRENT				
Deferred income	1,024	12	-	-

The deferred income balance at 30 June 2009 consists of \$400,120 which relates to Air Pollution Control sales contracts. Income had been received for projects that were incomplete at the end of the financial year. Licence fees associated with the Nickel Cobalt Resin-in-Pulp project of \$623,750 have been received in advance as at 30 June 2009.

**NOTE 18: ISSUED CAPITAL**

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
56,547,070 (2008:56,504,258) fully paid ordinary shares	18(a)	7,502	7,488	7,502	7,488
(a) Ordinary shares					
At the beginning of reporting period		7,488	2,109	7,488	-
Shares issued during the year					
- Incorporation of holding company 1 share		-	*	-	*
- Share split as a result of the corporate restructure 44,004,257 shares		-	*	-	*
- Shares issued as a result of an Initial Public Offering 12,500,000 shares		-	6,250	-	8,359
- Transaction costs relating to share issues net of income tax			(871)		(871)
- Shares issued as part of the employee share scheme 42,812 shares		14	-	14	-
At reporting date		7,502	7,488	7,502	7,488

\* less than \$500

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.

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**(b) Options**

(i) For information relating to share options issued to employees during the financial year, refer to Note 20.

**NOTE 19: RETAINED EARNINGS**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Retained profits/(losses) at the beginning of the financial year	4,411	2,687	(69)	-
Net profit/(loss) attributable to members of the entity	511	2,924	(132)	(69)
Dividends provided for or paid	-	(1,200)	-	-
Retained profits/(losses) at reporting date	<u>4,922</u>	<u>4,411</u>	<u>(201)</u>	<u>(69)</u>

**NOTE 20: OPTION RESERVE AND SHARE BASED PAYMENTS**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Balance at the beginning of the financial year	126	-	126	-
Current year provision	61	126	61	126
Balance at the reporting date	<u>187</u>	<u>126</u>	<u>187</u>	<u>126</u>

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.

No other conditions attach to the exercise of the options which are the subject of this initial grant. During the period 1 July 2008 to 22 June 2009 a further 615,000 (2008: 300,000) 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 option was

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decreased to the share price on the date of issue for the first tranche. The exercise price for the second and third tranche of options included a 10% increase per tranche in strike price of the option.

Furthermore, 120,000 options were issued to existing employees on 1 July 2008 based on the performance of these employees. 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 share price on the date of issue plus 10% which is 36 cents. The options 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.

Since the initial issue of options 336,000 (2008: 135,000) options have lapsed as a result of employees ceasing their employment with the Group and electing not to exercise their options.

There were no options exercised in or since the end of the current financial year.

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

	<b>Weighted average exercise price 2009</b>	<b>Weighted average exercise price 2008</b>	<b>Number of options 2009</b>	<b>Number of options 2008</b>
Outstanding at beginning of the year	\$0.54	-	3,246,000	-
Forfeited during the period	\$0.46	\$0.55	(201,000)	(135,000)
Exercised during the period	-	-	-	-
Granted during the period	\$0.32	\$0.54	735,000	3,381,000
Expired during the period	-	-	-	-
Outstanding at year end	<u>\$0.50</u>	<u>\$0.54</u>	<u>3,780,000</u>	<u>3,246,000</u>
Exercisable at year end	<u><b>\$0.49</b></u>	<u><b>\$0.49</b></u>	<u><b>2,270,000</b></u>	<u><b>1,082,000</b></u>

The options outstanding at 30 June 2009 have an exercise price in the range of \$0.17 to \$0.60 (2008: \$0.335 to \$0.60) and a weighted average contractual life of 3 years (2008: 4 years).

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

<b>Grant Date</b>	<b>Expiry Date</b>	<b>Fair Value Per Option</b>	<b>Exercise Price</b>	<b>Price of Shares on Grant Date</b>	<b>Estimated Volatility</b>	<b>Risk Free Interest Rate</b>	<b>Dividend Yield</b>
9 November 2007	9 November 2010	10.4 cents	\$0.50	\$0.50	24%	6.25%	-
9 November 2007	9 November 2011	2.3 cents	\$0.55	\$0.50	24%	6.25%	-
9 November 2007	9 November 2012	2.8 cents	\$0.60	\$0.50	24%	6.25%	-

The risk free interest rate has decreased 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 has been decreased to 3% for options granted at 22 June 2009. All other factors and assumptions have remained constant during the current financial year.

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**NOTE 21: CASH FLOW INFORMATION**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Reconciliation of the net profit / (loss) after tax to the net cash flows from operations</b>				
Net profit / (loss) after income tax	511	2,924	(132)	(69)
Non-Cash Items:				
Depreciation of non-current assets	73	50	-	-
Amortisation of non-current assets	379	816	-	-
Written off development costs	-	115	-	-
Share based payments	75	126	-	-
Loss on sale of non-current assets	-	15	-	-
Changes in assets and liabilities:				
(Increase)/Decrease in trade and other receivables	(575)	48	(32)	-
Decrease/(Increase) in inventory	(1,007)	(102)	-	-
Increase/(decrease) in trade and other creditors	1,727	(398)	1,351	-
(Increase) /decrease in deferred tax assets	(947)	270	(930)	75
Increase/(decrease) in deferred revenue	1,012	(423)	-	-
(Decrease)/increase in current tax liabilities	(488)	488	(488)	(104)
Increase in deferred tax liabilities	676	234	10	-
Increase in employee entitlements	110	75	-	-
Net cash inflow/(outflow) from operating activities	<u>1,546</u>	<u>4,238</u>	<u>(221)</u>	<u>(98)</u>
<b>(b) Reconciliation of Cash</b>				
Cash balance comprises:				
- Cash at bank	1,496	2,544	-	-
- Call deposits	3,700	4,000	2,024	-
	<u>5,196</u>	<u>6,544</u>	<u>2,024</u>	<u>-</u>

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

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

- (i) Investment in controlled entities totalling \$2,234,549 (2007: \$nil) settled by the issue of parent entity shares.

**(d) Financing facilities**

At 30 June 2009 the Group has \$1,676,000 (2008:\$1,000,000) of various debt facilities with its principle banker. An amount of \$1,676,000 (2008:\$1,000,000) is maintained on an interest bearing deposit as security for this facility which is classified as deposits on call. At

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balance date an amount of \$1,260,601 (2008:\$303,779) was provided as guarantees for work in progress at 30 June 2009. At 30 June 2009 a Letter of Credit of \$26,042 (2008:\$7,578) was outstanding. The balance being \$389,357 (2008:\$688,643) of this facility remained unused at year end.

At 30 June 2009 the Group has approved finance lease facilities of \$100,000 (2008:\$100,000) in place for equipment leases. An amount of \$51,130 was drawn down under this facility at 30 June 2009 (2008 \$21,500).

**Clean TeQ Holdings Limited**

The Company does not have any finance facilities in place.

**NOTE 22: EARNINGS PER SHARE**

	Note	Consolidated	
		2009 \$'000	2008 \$'000
(a) Reconciliation of Earnings to Net Profit or Loss			
Net profit after tax		511	2,924
Earnings used in the calculation of basic earnings per share		511	2,924
Earnings used in the calculation of dilutive earnings per share		511	2,924
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic earnings per share		56,547,070	41,907,376
Weighted average number of options outstanding		3,447,699	1,916,449
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive earnings per share		59,994,769	43,823,825

(c) Classification of Securities

The options have been classified as potential ordinary shares and are included in the determination of dilutive earnings per share.

**NOTE 23: COMMITMENTS & CONTINGENCIES**

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
(i) Operating lease (non-cancellable)				
Minimum lease payments				
- Less than one year	122	130	122	130
- Between one and five years	-	122	-	122
	<u>122</u>	<u>252</u>	<u>122</u>	<u>252</u>

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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 2005 and ends on 19 June 2010.

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
(ii) Finance leases				
Minimum lease payments				
- Less than one year	6	6	-	-
- Between one and five years	11	18	-	-
	<u>17</u>	<u>24</u>	<u>-</u>	<u>-</u>
Less future finance charges	(2)	(4)	-	-
Total Lease Liability	<u>15</u>	<u>20</u>	<u>-</u>	<u>-</u>

During the comparative financial year the Group has entered into a finance lease expiring within 4 years. The interest rate for the finance leases is 10.05%. At the conclusion of the lease period the Group Company has the ability to acquire the equipment at the residual value.

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
(iii) Hire purchases				
Minimum hire purchase payments				
- Less than one year	11	8	-	-
- Between one and five years	24	2	-	-
	<u>35</u>	<u>10</u>	<u>-</u>	<u>-</u>
Less future finance charges	(4)	(1)	-	-
Total Hire Purchase Liability	<u>31</u>	<u>9</u>	<u>-</u>	<u>-</u>

During the current financial year the Group has entered into a hire purchase agreement expiring within 4 years. The interest rate for the higher purchase is 6.9%.

During the comparative financial year the Group had purchased a transit van under a hire purchase agreement expiring within 3 months of the current financial year end. The interest rate for this agreement was 8.5%.

**(b) Contingent liabilities**

Neither the consolidated entity nor the Company have any known contingent liabilities at the date of this report.

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**NOTE 24: ACQUISITION AND DISPOSAL OF SUBSIDIARIES**

During the comparative financial year the Company acquired all the shares in Clean TeQ Limited on 24 September 2007. A corporate restructure took place on this date with all the shares in Clean TeQ Limited being exchanged for shares in the new company, Clean TeQ Holdings Limited which was incorporated on 10 September 2007. As a result of this restructure Clean TeQ Holdings Limited acquired all of the shares in Resix Pty Ltd and 90% of the issued share capital of Clean TeQ Resin Production Pty Ltd.

At the conclusion of the restructure Clean TeQ Limited remained the operating entity within the Group while Clean TeQ Holdings Limited is a holding company that is listed on the Australian Stock Exchange. Resix and Clean TeQ Resin Production have remained dormant throughout the current period.

During the previous corresponding period under review the Company did not acquire any new subsidiaries.

The acquisitions by the legal parent entity, Clean TeQ Holdings Limited, included the following transactions:

**Acquisitions**

Name	Date acquired	Consolidated entity's interest	Consideration \$'000	Contribution to consolidated net profit/(loss)	
				2008 \$'000	2009 \$'000
Clean TeQ Limited	24 September 2007	100%	-	\$2,993	\$644
Resix Pty Ltd	24 September 2007	100%	-	**	**
Clean TeQ Resin Production Pty Ltd	24 September 2007	90%	-	*	*
CT Global Holdings Pty Ltd	3 April 2008	100%	-	*	*
LiXiR Functional Foods Pty Ltd	16 April 2009	100%	-	-	*
Clean TeQ Water Pty Ltd	1 May 2009	100%	-	-	*

\* These entities did not trade during the year ended 30 June 2009 and 30 June 2008.

\*\* - Less than \$500

*Effect of Acquisitions*

Whilst Clean TeQ Holdings Limited is the legal parent entity and Clean TeQ Limited the legal subsidiary, this transaction was accounted for in accordance with AASB 3; *Business Combinations*, using "reverse acquisition" accounting principles. Accordingly, the basis of preparation of the financial report has been presented as if the legal subsidiary, Clean TeQ Limited was the acquirer on 24 September 2007.

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The following are the net assets of the legal subsidiary as identified as the acquirer in accordance with AASB 3; *Business Combinations*.

	Recognised Values
	2008
	\$'000
Property plant & equipment	101
Inventories	466
Trade and other receivables	896
Cash and cash equivalents	2,542
Intangible Assets	5,614
Trade and other payables	(1,972)
Provisions	(119)
Deferred Income	(435)
Interest bearing loans and borrowings	(17)
Net identifiable assets and liabilities	<u>7,076</u>
Goodwill on acquisition	<u>-</u>
	<u>7,076</u>
Consideration paid in cash	-
Consideration paid via share issue	<u>7,076</u>
	<u>7,076</u>

Recognised values and the carrying amount of all the assets and liabilities acquired during the current and prior periods are identical.

The net assets of the legal parent, Clean TeQ Holdings Limited, were \$1 at the date of acquisition. Under AASB 3; *Business Combinations* this entity was identified as the acquiree.

All of the shares of CT Global Holdings Pty Ltd were acquired on 3 April 2008 for \$3. This company was dormant during the year ended 30 June 2009 and 30 June 2008.

All of the shares of LiXiR Functional Foods Pty Ltd and Clean TeQ Water Pty Ltd were acquired on 16 April 2009 and 1 May 2009 respectively for \$1 each. These companies were dormant during the year ended 30 June 2009.

**Disposals**

No entities within the consolidated group were disposed of during the financial years ended 30 June 2009 or 30 June 2008.

**NOTE 25: 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.

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**Directors**

Ralph Pliner	Non-Executive Chairman
Greg Toll	Executive Director & Chief Executive Officer
Peter Voigt	Executive Director
Jeremy Carter	Executive Director
Barry Lewin	Non-Executive Director

**Executives**

Marc Lichtenstein	Company Secretary & Chief Financial Officer
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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:

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Short-term employee benefits	1,015	977	-	-
Post-employment benefits	73	59	-	-
Share-based payments	26	113	-	-
	<b>1,114</b>	<b>1,149</b>	<b>-</b>	<b>-</b>

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 26: 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*. No options previously granted as remuneration have lapsed or been exercised during the year.

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

There have been no shares issued on exercise of compensation options.

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**(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:

<b>2009</b>	<b>Held at 1 July 2008</b>	<b>Granted as compensa- -tion</b>	<b>Options exercised</b>	<b>Other changes *</b>	<b>Held at 30 June 2009</b>	<b>Vested during the year</b>	<b>Vested and exercisable at 30 June 2009</b>
<b>Directors</b>							
Ralph Pliner	195,000	-	-	-	195,000	65,000	130,000
Greg Toll	585,000	-	-	-	585,000	195,000	390,000
Peter Voigt	585,000	-	-	-	585,000	195,000	390,000
Jeremy Carter	234,000	-	-	-	234,000	78,000	156,000
Barry Lewin	97,500	-	-	-	97,500	32,500	65,000
<b>Executives</b>							
Marc Lichtenstein	487,500	-	-	-	487,500	162,500	325,000

<b>2008</b>	<b>Held at 1 July 2007</b>	<b>Granted as compensa- -tion</b>	<b>Options exercised</b>	<b>Other changes *</b>	<b>Held at 30 June 2008</b>	<b>Vested during the year</b>	<b>Vested and exercisable at 30 June 2008</b>
<b>Directors</b>							
Ralph Pliner	-	195,000	-	-	195,000	65,000	65,000
Greg Toll	-	585,000	-	-	585,000	195,000	195,000
Peter Voigt	-	585,000	-	-	585,000	195,000	195,000
Jeremy Carter	-	234,000	-	-	234,000	78,000	78,000
Barry Lewin	-	97,500	-	-	97,500	32,500	32,500
<b>Executives</b>							
Marc Lichtenstein	-	487,500	-	-	487,500	162,500	162,500

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

No options were issued to any key management personnel during the 2009 financial year. No options held by key management personnel are vested but not exercisable at 30 June 2008. 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:

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2009	Held at 1 July 2008	Conversion *	Granted as compen- sation	Purchases	Received on exercise of options	Sales	Held at 30 June 2009
<b>Directors</b>							
Ralph Pliner	50,000	-	-	-	-	-	50,000
Greg Toll	7,936,287	-	3,058	-	-	8,000	7,931,345
Peter Voigt	19,740,801	-	3,058	-	-	-	19,743,859
Jeremy Carter	5,890,310	-	-	-	-	-	5,890,310
Barry Lewin	200,000	-	-	-	-	-	200,000
<b>Executives</b>							
Marc Lichtenstein	124,000	-	-	-	-	-	124,000

2008	Held at 1 July 2007	Conversion *	Purchases	Received on exercise of options	Sales	Held at 30 June 2008
<b>Directors</b>						
Ralph Pliner	-	-	50,000	-	-	50,000
Greg Toll	266,532	7,596,162	340,125	-	-	7,936,287
Peter Voigt	685,186	19,527,801	213,000	-	-	19,740,801
Jeremy Carter	199,660	5,690,310	200,000	-	-	5,890,310
Barry Lewin	-	-	200,000	-	-	200,000
<b>Executives</b>						
Marc Lichtenstein	-	-	124,000	-	-	124,000

\* Shares held in Clean TeQ Pty Ltd were exchanged for shares held in Clean TeQ Holdings Limited on 24 September 2007. At this date there was a share split of 28.5 shares issued for every one share originally held in Clean TeQ Pty Ltd.

All purchases of shares relate to shares acquired by key management personnel or their related parties at the time of the initial public offering other than 42,000 shares acquired on market by Greg Toll on 13 February 2008. As a result of the Company being incorporated on 10 September 2007 no key management personnel held any shares in Clean TeQ Holdings Limited prior to this date. No shares were granted to key management personnel during the reporting period as compensation in 2008. During the course of the current year 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 27: LOANS TO AND FROM KEY MANAGEMENT PERSONNEL**

There were no loans provided to key management personnel and or their related parties in the 2009 and 2008 financial years.

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During the year ended 30 June 2008 loans of \$657,678 from key management personnel to the Group were repaid in full. These loans were repaid in full prior to the lodgement of the Prospectus on 9 October 2007. These loans to the Group were all at call and no interest was paid or payable on the outstanding balance.

**NOTE 28: 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 current 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:

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Total fees paid / payable	45	385	45	385

**(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 26(d).

**(c) Other related party transactions**

Peter Voigt is a director of New Cambridge Investments Ltd. New Cambridge Investment Ltd transacted with the Group in the prior period. The terms of the transactions were arm's length.

The aggregate amounts recognised during the prior year relating to related party transactions were as follows:

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Sales Revenue - New Cambridge Investments Ltd	-	217	-	-

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.

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**NOTE 29: AUDITOR'S REMUNERATION**

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Audit services</b>				
Auditors of the Company				
Pitcher Partners				
▪ Audit and review of financial reports	104,500	86,420	104,500	86,420
Other Auditors				
▪ Audit and review of financial reports	-	31,986	-	-
	104,500	118,406	104,500	86,420
<b>Other services</b>				
Pitcher Partners				
▪ Other assurance services	-	79,585	-	79,585
▪ General advice	1,625	3,405	-	-
▪ Taxation services	19,625	3,000	11,040	-
	21,250	85,990	11,040	79,585

Other assurance services undertaken by Pitcher Partners include the completion of the Investigating Accountants Report included in the Company's prospectus dated 9 October 2007.

**NOTE 30. SEGMENT INFORMATION**

**Business segments**

The consolidated entity comprises of the following main business segments:

- Air Purification

This has been the core business of the Company since 1990. Clean TeQ provides biological and energy efficient air purification and odour elimination solutions to municipal and statutory authorities and industrial companies.

- Water Purification

Clean TeQ's suite of water innovations, such as functionally active resins, membranes and biological reactors, alone and in combination, filter, separate and purify polluted waters to a standard suitable for drinking, agriculture, recreation or industrial use. Clean TeQ is currently offering and further developing a suite of technologies for use in the purification and recycling of waste water and the desalination of brackish water to produce high quality industrial water.

- Resource Recovery

Through its Clean-iX® Technology the Company aims to provide cost effective extraction techniques which are intended to enable a higher recovery rate of valuable ores, while having less environmental impact. This technology utilises an ion exchange process together with specially designed equipment and resin which can be used in the extraction process of a range of resources, including base metals, precious metals and radioactive elements (such as uranium).

**Geographical segments**

Geographically, the Group operates predominately in Australia.

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**Primary Segment Information**

<b>Business segments</b>	<b>Air</b>	<b>Resource Recovery</b>	<b>Water</b>	<b>Other</b>	<b>Consolidated</b>
	<b>2009 \$'000</b>	<b>2009 \$'000</b>	<b>2009 \$'000</b>	<b>2009 \$'000</b>	<b>2009 \$'000</b>
External revenue	6,087	1,394	693	378	8,552
Segment revenue	6,087	1,394	693	378	8,552
Segment results	2,004	1,312	363	372	4,051
Unallocated expenses					(3,813)
Income tax benefit					273
Profit for the year					511
Segment assets	2,384	4,531	2,654	-	9,569
Unallocated assets					9,206
Total assets					18,775
Segment liabilities	2,207	703	27	-	2,937
Unallocated liabilities					3,227
Total liabilities					6,164
<b>Other segment information:</b>					
Capital expenditure including capitalised development expenditure	109	1,727	565	512	2,913
Depreciation	28	19	14	12	73
Amortisation of intangibles	22	335	-	-	357

<b>Business segments</b>	<b>Air</b>	<b>Resource Recovery</b>	<b>Water</b>	<b>Other</b>	<b>Consolidated</b>
	<b>2008 \$'000</b>	<b>2008 \$'000</b>	<b>2008 \$'000</b>	<b>2008 \$'000</b>	<b>2008 \$'000</b>
External revenue	5,585	7,299	1,492	843	15,219
Segment revenue	5,585	7,299	1,492	843	15,219
Segment results	2,185	4,555	587	830	8,157
Unallocated expenses					(4,243)
Income tax expense					(990)
Profit for the year					2,924
Segment assets	1,288	2,903	2,015	-	6,206
Unallocated assets					8,928
Total assets					15,134
Segment liabilities	532	403	189	-	1,124
Unallocated liabilities					1,985
Total liabilities					3,109

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<b>Business segments</b>	<b>Air</b>	<b>Resource Recovery</b>	<b>Water</b>	<b>Other</b>	<b>Consolidated</b>
	<b>2008 \$'000</b>	<b>2008 \$'000</b>	<b>2008 \$'000</b>	<b>2008 \$'000</b>	<b>2008 \$'000</b>
<b>Other segment information:</b>					
Capital expenditure including capitalised development expenditure	49	1,150	227	548	1,947
Depreciation	17	23	10	-	50
Amortisation of intangibles	15	801	-	-	816

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

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**NOTE 31: 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	Fixed interest rate maturing in:											Total carrying amount as per the Balance Sheet		Weighted average effective interest rate		
	Floating interest rate		1 year or less		Over 1 to 5 years		More than 5 years		Non-interest bearing							
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	%
<b>(i) Financial assets</b>																
Cash	1,352	2,463	3,700	4,000	-	-	-	-	144	81	5,196	6,544	6.21	7.79		
Trade and other receivables	-	-	-	-	-	-	-	-	1,539	964	1,539	964				
<b>Total financial assets</b>	<b>1,352</b>	<b>2,463</b>	<b>3,700</b>	<b>4,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,683</b>	<b>1,045</b>	<b>6,735</b>	<b>7,508</b>				
<b>(ii) Financial liabilities</b>																
Trade creditors	-	-	-	-	-	-	-	-	2,011	259	2,011	259				
Other creditors	-	-	-	-	-	-	-	-	269	293	269	293				
Hire purchase liability	-	-	9	7	22	2	-	-	-	-	31	9	6.90	8.50		
Finance lease liability	-	-	5	5	10	15	-	-	-	-	15	20	10.05	10.05		
Employee benefits	-	-	-	-	-	-	-	-	306	196	306	196				
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>14</b>	<b>12</b>	<b>32</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>2,586</b>	<b>748</b>	<b>2,632</b>	<b>777</b>				

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**Note 31: Financial Instruments (cont)**

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

The consolidated entity's investments in variable-rate debt securities and its variable-rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short-term receivables and payables are not exposed to interest rate risk.

**(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 balance sheet and notes to the financial statements.

**(c) Net fair values**

The net fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in the balance sheet 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 32: CONTROLLED ENTITIES**

	Country of Incorporation	Percentage Owned	
		2009	2008
<b>Parent Entity:</b>			
Clean TeQ Holdings Limited	Australia		
<b>Subsidiaries of Clean TeQ Holdings Limited</b>			
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%	-

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	<b>Country of Incorporation</b>	<b>Percentage Owned</b>	
Clean TeQ Water Pty Ltd*	Australia	100%	-
Clean TeQ Resin Production Pty Ltd	Australia	90%	90%

\* These entities were incorporated on 16 April 2009 and 1 May 2009 respectively and remained dormant throughout the remainder of the current financial year.

**NOTE 33: SUBSEQUENT EVENTS**

On 1 August 2009 the Company has entered into an agreement with UV-Guard Australia Pty Ltd 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 \$100,000 paid in cash. Inventory on hand at the date of settlement is being acquired by the Company at cost.

The Company has agreed to pay the acquiree additional consideration of approximately \$100,000 in each of the next two financial years if the acquiree's gross profits exceeds a predetermined level. In light of the current uncertainty in the world financial markets there is no certainty that at the acquisition date the additional consideration will become payable and therefore no amount has been included as additional consideration at the acquisition date.

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 assets and liabilities acquired cannot be accurately determined as at the date of the financial report as UV-Guard have not completed their 30 June 2009 year end audit of their financial report.

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 2009 other than disclosed above.

**NOTE 34: FINANCIAL RISK MANAGEMENT**

The Company and Group have exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Company's and 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.

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Risk management policies are established to identify and analyse the risks faced by the Company and 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 Company's and Group's activities. The Company and 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 Company's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and 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. For the Company it arises from receivables due from subsidiaries.

*Trade and other receivables*

The Company's and 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 undertaken by the Group, which is greater than 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.

**CLEAN TEQ HOLDINGS LIMITED  
ABN 34 127 457 916  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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*Guarantees*

Group policy is to provide financial guarantees only to wholly-owned subsidiaries. Details of outstanding guarantees are provided in Note 35.

***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.

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:

- \$1,676,000 overdraft facility that is secured by a fixed deposit of the same amount.

***Market Risk***

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

At balance date there was no material exposure to market risk but Executive Management will monitor this risk as and when required.

*Currency risk*

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currency of Group entities, primarily the Australian dollar (AUD).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

*Interest rate risk*

The Group currently has no significant debt and accordingly has limited exposure to interest rate movements. Surplus cash is placed on term deposit for up to 180 days at fixed interest rates.

**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

**CLEAN TEQ HOLDINGS LIMITED  
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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.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings 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.

There were no changes in the Group's approach to capital management during the year.

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

**NOTE 35: 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 income statement and consolidated balance sheet, 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 2009 is no different to the consolidated income statement and consolidated balance sheet of Clean TeQ Holdings Limited presented above.

**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 17 to 26, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2009 and of their 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;
  - (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 35 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 2009 pursuant to Section 295A of the Corporations Act 2001.

Dated at 26 August 2009

Melbourne.

Signed in accordance with a resolution of the directors:



Greg Toll  
**Director**

**CLEAN TEQ HOLDINGS LIMITED**  
**ABN 34 127 457 916**

**INDEPENDENT AUDITOR'S REPORT**

**To the members of Clean TeQ Holdings Limited**

We have audited the accompanying financial report of Clean TeQ Holdings Limited and controlled entities. The financial report comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 and fair presentation of the financial report 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 opinions.

*Independence*

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

**CLEAN TEQ HOLDINGS LIMITED**  
**ABN 34 127 457 916**

*Auditor's 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 company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 17 to 26 of the directors' report for the year ended 30 June 2009. 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.

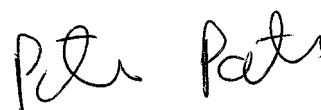
*Auditor's Opinion*

In our opinion the Remuneration Report of Clean TeQ Holdings Ltd and controlled entities for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.



S D WHITCHURCH  
Partner

26 August 2009



PITCHER PARTNERS

Melbourne

**CLEAN TEQ HOLDINGS LIMITED**  
**ABN 34 127 457 916**

**Additional Information**

**COMPANY DETAILS**

The registered office of the company is:

Clean TeQ Holdings Limited  
270-280 Hammond Road  
Dandenong South, Victoria, 3175  
Australia.  
Telephone (03) 9706 8244

*Share Registry*

Computershare Investor Services Pty Limited  
Yarra Falls, 452 Johnston Street  
Abbotsford, Victoria, 3067  
Telephone (03) 9415 5000  
Facsimile (03) 9473 2500

ASX Code: CLQ