CARNEGIE CLEAN ENERGY LIMITED
ABN 69 009 237 736
AND CONTROLLED ENTITIES

FINANCIAL REPORT

FOR THE YEAR ENDED

30 JUNE 2017

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DIRECTORS' REPORT
30 JUNE 2017

The Directors present their report on Carnegie Clean Energy Limited ("the Company", or “Carnegie”) and its controlled entities, ("the Consolidated Group”, or “Group") for the financial year ended 30 June 2017.

DIRECTORS

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

***Jeffrey Harding** B.Eng, B.Com, MBA, FAICD (Chairman) – appointed 21 May 2009*

Mr Harding is recognised as one of Australia’s leading alternative energy practitioners and has been a key driver in expanding the renewables market in Australia, South America and Europe since the mid-90’s. From 1995 to 2005 Mr Harding was Managing Director of Pacific Hydro Limited, Australia's largest renewable energy developer with wind and hydro energy projects in Australia, Asia and Chile. During his tenure, Mr Harding oversaw the international expansion of the business with growth in market capitalisation from AU$5 million to over AU$750 million and an increase in profit after tax each year from 1996 to 2005, when Pacific Hydro was sold to IFM Renewable Energy. Mr Harding was also previously the Vice President of the Australian Business Council for Sustainable Development.

Mr Harding was also Chairman of Ceramic Fuel Cells Ltd (AIM:CFU), was formerly General Manager of Brambles Industrial Services and Vice President of the Australian Business Council for Sustainable Development. Mr Harding has regularly presented on issues associated with climate change and renewable energy and was the 2014 Halsey Visiting Professor at the University of Virginia.

Mr Harding has degrees in Civil Engineering, Economics, and a Masters Degree in Business Administration. He is also a director of the Infrastructure Capital Group and is a Fellow of the Australian Institute of Company Directors. Mr Harding resides in both Europe and Australia.

***Dr Michael Edward Ottaviano** B.Eng, MSc, DBA, MAICD, M.I.EngAus (Chief Executive Officer and Managing Director) – appointed 1 September 2006*

Dr Ottaviano joined Carnegie in January 2006 and was made Managing Director in March 2007. Dr Ottaviano oversaw the acquisition of the CETO wave power intellectual property in 2009 and focusing of the company’s efforts on its commercialisation. During his time as Managing Director, Dr Ottaviano has led the development of CETO Wave Energy technology from Proof of Concept, Pilot Plant and Commercial Demonstration stages and has been responsible for raising over $146 million in equity, grants and debt. More recently he has steered the Group’s expanded focus into the solar/ battery microgrid market including the acquisition of the Energy Made Clean Group in 2016.

Dr Ottaviano has previously worked in research and development and consulted in technology and innovation management. He has advised companies on new product development, intellectual property and technology commercialisation across various industries and ranging from start-ups to large multi-nationals. He is a former Board Member of the Clean Energy Council, Australia’s clean energy peak industry group, and was a member of the Australian Government’s Energy White Paper Consultative Committee. He is also a non-executive director of ASX-listed hearing technology start up, Nuheara Limited and Western Australia’s screen funding development organisation Screenwest.

Dr Ottaviano has a Bachelor of Engineering, a Master’s of Science and a Doctorate in Business Administration.

***Kieran O’Brien** B.Eng, MBA, MEngSc, FIEI, FIEE (Executive Director) – appointed 23 September 2010*

Mr O'Brien is a former Managing Director of ESB (Ireland’s Electricity Supply Board) National Grid and served as a member of the Executive Management Group of ESB for more than 15 years. He has been responsible for long term strategic planning in ESB and for relations with the Irish Government and European Union in the fuel and utility sector. Mr O’Brien was Acting Secretary General of the World Energy Council (WEC) from 2008-2009 and served two three year terms as a member of the Officer’s Council of the WEC. His international power industry experience extends to Asia, Africa, the Middle East, Eastern Europe and North America.

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

Mr Fitzpatrick has over 38 years in the financial services sector. He is Chairman of Pacific Current Group (formerly Treasury Group Limited), an incubator of fund management companies, and past Chairman of the Australian Football League. He also holds several non-executive directorships, including Infrastructure Capital Group and Latam Autos Limited.

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

Prior to establishing Hastings, Mr Fitzpatrick was a director of CS First Boston. He also previously held positions with Merrill Lynch and First Boston in New York, the Victorian Treasury and Telecom Australia.

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

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

John Leggate *CBE, FREng (Non-executive Director) – appointed 27 July 2011*

Mr Leggate is a highly-experienced oil and gas and venture capital industry executive. He worked for over 27 years for BP. His key leadership roles were as President of the Azerbaijan International Oil Co, BP's Group Chief Information Officer and Group Vice President of BP's Global Supply Chain.

At BP Mr Leggate was closely involved in the development of corporate policy on technology foresight, and corporate venturing during the dot-com era. He has spent 20 years in the exploration and production business, running a wide range of projects, construction, commissioning and production operations with a focus on the North Sea and the Caspian Region. Mr Leggate's early career was spent in marine consultancy at Yarrows Admiralty Research in Glasgow and afterwards was engaged in the design and construction of coal, oil and nuclear power stations with South of Scotland Electricity Board (now Scottish Power).

Mr Leggate has served as a Director on the Main Board and Audit Committee of London AIM listed Parkmead Group and Ogin, a venture backed Boston based wind turbine company and on the board of a cybersecurity company in Washington DC. He has also served on the UK DTI Far Eastern Trade Advisory Board for four years and was advisor to the US House Science Committee on the potential threat from cyber security on critical national infrastructure and global trade.

Mr Leggate was awarded the CBE in recognition of his outstanding contribution and leadership to the international digital technology agenda. Mr Leggate is a graduate of Glasgow University and is a Fellow of the Institute of Electrical Engineering and Fellow of the Royal Academy of Engineering.

***Grant Jonathan Mooney** B.Bus, CA (Non-executive Director and Company Secretary) – appointed 19 February 2008*

Mr Mooney is the principal of Perth-based corporate advisory firm Mooney & Partners, specialising in corporate compliance administration to public companies. Mr Mooney has gained extensive experience in the areas of corporate and project management since commencing Mooney & Partners in 1999. His experience extends to advice on capital raisings, mergers and acquisitions and corporate governance. Currently, Mr Mooney serves as a Director to several ASX listed companies across a variety of industries including technology and resources. He is a Director of POZ Minerals Limited, appointed 14 October 2008, Barra Resources Limited, appointed 29 November 2002, and Talga Resources Limited, appointed 20 February 2014. He was a Director of Nuheara Limited from 1 May 2007 to 4 June 2016. Mr Mooney is also a member of the Institute of Chartered Accountants in Australia.

***John Davidson** (Executive Director and Energy Made Clean's Managing Director) – appointed 15 February 2017*

Mr Davidson brings to the Board more than 30 years' experience leading major strategic business initiatives and business transformation in a diverse range of industries, particularly the renewable energy and technology sectors. The appointment of Mr Davidson as Executive Director follows the acquisition of Energy Made Clean ("EMC") by Carnegie in December 2016.

From its inception in 2002, Mr Davidson has spent the last 15 years building EMC into one of the country's leading solar and battery storage innovators. Growing in strength through a number of acquisitions, including Solar Sales, and Clear Energy, Mr Davidson has developed a unique business model that offers an end-to-end renewable energy solution in-house, dedicated to research and development, custom design, construction, operation, maintenance and monitoring. As founder of EMC, Mr Davidson will be instrumental in establishing Carnegie as the leading Australian renewable energy microgrid project delivery company. His international business experience and connections will also further enhance the company's global opportunities in the microgrid and wave energy technologies.

Mr Davidson also serves as Non-Executive Director on the board of listed mining company TNG Limited.

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

	Ordinary Shares	Options
Michael Fitzpatrick (i)	125,365,359	5,000,000
Dr Michael Edward Ottaviano	35,000,000	-
John Rix Davidson (ii)	297,366,738	-
Jeffrey Harding (iii)	1,346,099	5,000,000
Grant Jonathan Mooney (iv)	2,628,278	15,000,000
Kieran O'Brien	170,000	10,000,000
John Leggate	100,000	5,000,000

i. Mr M Fitzpatrick is a Director of Log Creek Pty Ltd and therefore is deemed to have an interest in 125,365,359 ordinary shares and 5,000,000 options held by Log Creek Pty Ltd and 88 Green Ventures. In addition, Log Creek Pty Ltd holds 100 convertible notes with a face value of $1,000,000 convertible into shares at 8.0c (refer to note 19(ii)).
ii. Mr J Davidson acquired 297,142,857 ordinary shares on as part consideration for the acquisition of his 65% interest in the Energy Made Clean Group previously not held by Carnegie Clean Energy Ltd. An additional 223,881 ordinary shares were acquired on 24 April 2017 through a Share Purchase Plan.
iii. Mr J Harding is deemed to have an interest in 1,346,099 ordinary shares as trustee for the "The Harding Super Fund Account".
iv. Mr G J Mooney is a Director of Mooney & Partners Pty Ltd and therefore is deemed to have an interest in 2,628,278 ordinary shares held by Mooney & Partners Pty Ltd.

COMPANY SECRETARY

The following people held the position of joint company secretary at the end of the financial year:

Mr Grant Jonathan Mooney and **Mr Aidan John Flynn**

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Group during the year were the development of the CETO Wave Energy Technology and the development of the Energy Made Clean solar, battery and microgrid business.

OPERATING RESULTS

The consolidated loss of the Consolidated Group for the financial year ended 30 June 2017 amounted to $14,382,638 (2016: consolidated loss $6,349,387).

DIVIDENDS

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2017. No dividends were paid during the financial year.

REVIEW OF OPERATIONS

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

- The acquisition of the remaining 65% of the project engineering business Energy Made Clean (“EMC”), a growing business active in the solar/battery and microgrid sectors. The acquisition of EMC delivers diversification to Carnegie and expands our product offering to utility scale solar, wave and energy storage projects in Australia and internationally;

- Establishment of a 50/50 Joint Venture Agreement (“JVA”) between Carnegie’s 100% owned subsidiary Energy Made Clean Pty Ltd and ASX-listed Lendlease to deploy solar and battery projects around Australia. The JVA provides opportunities to increase EMC’s capacity to bid for and deliver a broader range of solar, battery energy storage systems, and microgrid opportunities within Australia, including increased access to the National Energy Market (“NEM”), leveraging Lendlease Service’s national footprint and staff of 3,000 people across Australia;

- Signed a strategic Memorandum of Understanding with Sumitomo Electric Industries and TNG Limited to collaborate on the promotion, development and growth of Australia’s Vanadium Redox Flow Battery (“VRF”) market. EMC’s main role in this partnership will be to identify specific commercial development project site opportunities, in addition to designing and supplying a compatible balance of plant (likely to include a solar PV farm) to integrate with the VRF containerized system being supplied by component manufacturer Sumitomo, as part of a complete solar and battery demonstration project.

- Announced the commencement of its first utility scale solar project to be located at Northam in Western Australia. On 16 June 2017, the Company announced that the grid-connected 10MW project received Development Approval from the Mid-West/Wheatbelt Joint Development Assessment Panel (JDAP).

Strong progress was also made on the development of the CETO 6 wave energy technology and project site options both in Australia and overseas, including:

- An award of £9.6 million (AU$16 million) from the European Regional Development Fund for the first 1MW stage of a planned 15MW WaveHub Project in the UK;

REVIEW OF OPERATIONS (CONTINUED)

- Significant progress on the Garden Island Microgrid Project including completion of the design, receipt of WA Government planning permission and all Department of Defence ("DoD') approvals, power and water offtake contracts with DoD, and securing of $2.5 million in grants from the Australian Renewable Energy Agency ("ARENA") with payment of an initial $0.67 million from ARENA.

- Advancing plans for a third CETO 6 Wave Energy Project option in Western Australia at the site Carnegie's offshore licence area at Albany where the WA State Government has created a $19.5 million fund for a wave energy project and research centre of excellence at this location.

Carnegie also undertook additional financing initiatives, including:

- Closing a $5.0 million debt financing raise used to refinance an existing $500,000 working capital bank facility held by Energy Made Clean and to fast track microgrid project opportunities;

- Received a $3.1 million Research and Development Tax cash refund payment; and

- Completion of a $18.0 million capital raising used to fund its equity share of the 10MW Northam Solar Project as well as other project pipeline development and delivery.

FINANCIAL POSITION

The net assets of the Consolidated Group increased by $17.0 million to $112.9 million as at 30 June 2017. This is largely the result of a $18.0 million share placement in April 2017.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

- The acquisition of the remaining 65% of the project engineering business Energy Made Clean as mentioned under the Review of Operations; and

- Raising $18.0 million by issuing 269.2 million ordinary shares under a Share Purchase Plan and Private Placement at an issue price of $0.067 per share.

SIGNIFICANT EVENTS SUBSEQUENT TO YEAR END

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

- On 1 August 2017, Carnegie commenced construction of the 2MW solar PV and 2MW/0.5MWh battery Garden Island Microgrid which also incorporates Carnegie's existing desalination plant. The project will sell all power and water produced to the Department of Defence for use by HMAS Stirling.

- On 7 July 2017, Carnegie announced its 100% subsidiary Energy Made Clean Pty Ltd was awarded the design and construction of a solar/battery/diesel microgrid for Lendlease Buildings on behalf of the Department of Defence. The microgrid will be installed at the Department of Defence's Delamere Air Weapons Range in the Northern Territory of Australia.

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

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The 2017 financial year saw Carnegie expand its business focus to capture the opportunities in the rapidly evolving clean energy market. The 100% acquisition of project engineering company Energy Made Clean ("EMC"), brings revenues to the Company and delivers deep capability and experience in the design and construction of solar, battery and microgrid projects. The acquisition of EMC delivers diversification to Carnegie and expands our product offering to utility scale solar, wave and energy storage projects in Australia and internationally.

ENVIRONMENTAL ISSUES

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

SHARE OPTIONS

At the date of this report, there were 40,000,000 options outstanding in respect of unissued ordinary shares to Directors and a further 14,000,000 options held by employees.

INDEMNIFYING OFFICER OR AUDITOR

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

- The Company has paid premiums to insure the Directors against certain risks they are exposed to as Directors of the Company; and

- The Company has agreed to grant Directors a right of access to certain Company Records.

The Company has paid premiums to insure each Director against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of a Director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The amount of the premiums was $19,194.

REMUNERATION REPORT - AUDITED

This report details the nature and amount of remuneration for each Director of Carnegie Clean Energy Limited and for the specified executives.

Remuneration Policy

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

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

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

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

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

The Board policy is to remunerate non-executive Directors at market rates for time, commitment and responsibilities. The Executive Directors determine payments to the non-executive Directors and review their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive Directors are not linked to the performance of the Consolidated Group.

REMUNERATION REPORT – AUDITED (CONTINUED)

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

During the year, the Company took significant steps to advance its microgrid business, the development of the CETO 6 wave energy technology, and site assessment and planning for wave energy projects both in Australia and overseas.

Over the last 12 months the Company completed its 100% acquisition of the Energy Made Clean business and continued its spend on the CETO 6 project. This spend was partially offset by the Company drawing down on government grants as well as receiving $3.1 million in R&D tax incentive cash payment. The Company has maintained and increased its ability to continue the commercialisation of CETO and the development of its microgrid business.

	2013	**2014**	**2015**	**2016**	**2017**
	$	**$**	**$**	**$**	**$**
Revenue	351,917	1,913,452	1,716,516	1,729,797	4,845,575
Net loss after tax	(3,303,572)	(4,176,921)	(4,784,050)	(6,349,387)	(14,382,638)
Share price at year end	0.030	0.050	0.045	0.030	0.057

The remuneration for each key management personnel of the consolidated entity paid during the year was as follows:

Details of Remuneration for Year Ended 30 June 2017

	Actual rewards received in the period			**Actuarial valuation of potential future rewards**		
	Short-term benefits					
	Cash salary, leave paid and fees	**Non Cash Benefits**	**Post Employment Benefits - Super**	**Other long term benefits**	**Share based payments**	**Performance**
Jeffrey Harding	$ 110,000	$ -	$ 10,450	$ -	$ -	-
Michael Fitzpatrick	$ 57,500	$ -	$ 5,462	$ -	$ -	-
Michael Ottaviano*	$ 784,052	$ 20,035	$ 19,615	$ 11,712	$ -	-
John Davidson**	$ 203,268	$ 7,383	$ 13,517	$ 13,360	$ -	-
John Leggate	$ 60,454	$ -	$ -	$ -	$ -	-
Grant Mooney***	$ 153,500	$ -	$ 5,462	$ -	$ -	-
Kieran O'Brien	$ 125,807	$ -	$ -	$ -	$ -	-
Greg Allen	$ 261,500	$ -	$ 22,942	$ 5,292	$ 255	-
Total	**$ 1,756,081**	**$ 27,418**	**$ 77,448**	**$ 30,363**	**$ 255**	-

* Michael Ottaviano's short-term benefits include the cash-out of his accrued long service leave entitlement of $112,051.

** John Davidson's remuneration covers the period from 2 December 2016 to 30 June 2017, being when the Energy Made Clean Group was 100% owned by the Company during the financial year.

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

REMUNERATION REPORT – AUDITED (CONTINUED)

Details of Remuneration for Year Ended 30 June 2016

	Actual rewards received in the period			Actuarial valuation of potential future rewards		
	Short-term benefits		Post Employment Benefits - Super	Other long term benefits	Share based payments	Performance
	Cash salary, leave paid and fees	Non Cash Benefits				
Jeffrey Harding	$ 115,115	$ -	$ 10,935	$ -	$ -	-
Michael Fitzpatrick	$ 57,500	$ -	$ 2,731	$ -	$ -	-
Michael Ottaviano	$ 672,308	$ 56,112 **	$ 19,307	$ 27,726	$ -	-
John Leggate	$ 86,659	$ -	$ -	$ -	$ -	-
Grant Mooney*	$ 153,500	$ -	$ 5,462	$ -	$ -	-
Kieran O'Brien	$ 137,737	$ -	$ -	$ -	$ -	-
Greg Allen	$ 261,500	$ -	$ 22,942	$ 8,113	$ 23,830	-
Total	**$ 1,484,319**	**$ 56,112**	**$ 61,377**	**$ 35,839**	**$ 23,830**	

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

** Includes some relocation costs for the Managing Directors secondment to the UK from December 2015 to September 2016.

Performance Income as a Proportion of Total Remuneration

No performance based incentive bonus was awarded or paid during the year.

Options Issued as Part of Remuneration for the Year Ended 30 June 2017

No options were issued to Directors during the financial year.

Employment Contracts Of Directors

The employment conditions of the directors are formalised in Service Contracts. The Managing Director, Michael Ottaviano, is contracted under a contract for $691,616 per annum including superannuation plus a fully serviced company vehicle. During the year, Mr Ottaviano cashed out his accrued long service leave entitlement of $112,051. Executive Director, Kieran O'Brien, is under a contract for €86,400 per annum. Executive Director, John Davidson, is under a contract for $350,000 plus superannuation and motor vehicle maintenance costs per annum. Non-Executive Director, John Leggate, is under a contract for €41,250 per annum. Non-Executive Directors, Michael Fitzpatrick and Grant Mooney, are under a contract for $57,500 plus superannuation per annum. The above contracts remain effective from 1 July 2017.

Jeffrey Harding was appointed as Chairman on 11 May 2015. As the Chairman, he receives a base salary of $110,000 per annum plus superannuation. This remains effective from 1 July 2017.

There is a contract for service between the Company and Mooney & Partners Pty Ltd, an entity associated with Grant Mooney, commencing from 9 October 2009 for an initial period of 3 years and subsequently on a rolling basis, whereby Mr Mooney provides Company Secretarial services and receives a fee of $96,000 per annum (exclusive of GST). This fee has been voluntarily reduced to $60,000 per annum (exclusive of GST) from August 2017. As a Non-Executive Director, Grant Mooney receives a base salary of $57,500 plus superannuation per annum, remaining effective from 1 July 2017.

The employment contracts for Grant Mooney, John Davidson, and Michael Ottaviano stipulate a three-month resignation period. The Company may terminate an employment contract without cause by providing three months written notice or making payment in lieu of notice, based on the individual's annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time. Termination payments are in accordance with Corporation Act 2001.

DIRECTORS' MEETINGS

There were 7 Directors' meetings held during the financial year ended 30 June 2017. Attendances were as follows:

Director	Number Attended			
	Directors		Audit Committee	Remuneration Committee
	No. Meetings attended	No. Meetings held during time in office		
Jeffrey Harding	7	7	3	N/A
Dr Michael E Ottaviano	7	7	N/A	N/A
Grant Mooney	7	7	3	5
Kieran O'Brien	7	7	N/A	5
John Davidson	3	3	N/A	N/A
John Leggate	7	7	1	5
Michael Fitzpatrick	7	7	3	N/A

There was a total of 6 circular resolutions passed by the Board of Directors during the financial year.

END OF REMUNERATION REPORT

NON-AUDIT SERVICES

The external auditors were not engaged for non-audit services during the financial year ended 30 June 2017.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2017 has been received and can be found on page 14.

Signed on 22 September 2017 in accordance with a resolution of the Board of Directors.

DR MICHAEL EDWARD OTTAVIANO	**GRANT JONATHAN MOONEY**
Managing Director	Director

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AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Carnegie Clean Energy Ltd for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

Crowe Horwath Perth

CROWE HORWATH PERTH

CYRUS PATELL
Partner

Signed at Perth, 22 September 2017

CARNEGIE CLEAN ENERGY LIMITED
ABN 69 009 237 736
AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR YEAR ENDED 30 JUNE 2017

	Note	Consolidated Group 2017 $	2016 $
Revenue			
Sales revenue	2	4,598,030	200,375
Royalty income	2	452,591	882,798
Share of (losses)/profits of associate accounted for using the equity method	3,31	(579,081)	371,892
Net gain on financial instruments at fair value through profit and loss	17	250,343	-
Other income	2	123,692	274,732
		4,845,575	1,729,797
Cost Of Goods Sold			
Cost of sales - solar, battery energy storage systems, & microgrids	33	(5,980,924)	-
Gross Profit		(1,135,349)	1,729,797
Expenses			
Depreciation and amortisation expense	4	(1,401,120)	(117,072)
Occupancy expense		(692,833)	(285,290)
Consultancy expenses		(19,915)	(266,719)
Research expenses		(706,241)	(134,386)
Employee and Directors expenses		(5,256,158)	(3,002,133)
Employee Share based payments	29	(131,583)	(598,144)
Finance costs		(678,928)	(1,448,381)
Company secretarial expenses		(96,000)	(96,000)
Administrative expenses		(2,538,676)	(2,113,126)
Adjustment to fair value on the acquisition of the remaining interest in a former associate	31	(1,636,101)	-
Other expenses from ordinary activities		(89,734)	(17,933)
Loss before income tax	4	(14,382,638)	(6,349,387)
Income tax benefit/(expense)	5	-	-
Loss for the year		(14,382,638)	(6,349,387)
Other comprehensive income			
Exchange differences on translating foreign controlled entities and foreign currencies		5,488	487
Income tax relating to components of other comprehensive income		-	-
Total comprehensive loss for the year		(14,377,150)	(6,348,900)
Loss attributable to:			
Members of the parent entity		(14,382,638)	(6,349,387)
Total comprehensive loss attributable to:			
Members of the parent entity		(14,377,150)	(6,348,900)
Earnings per share			
Basic loss per share (cents per share)	8	(0.647)	(0.337)
Diluted loss per share (cents per share)	8	(0.647)	(0.337)

The accompanying notes form part of these financial statements.

CARNEGIE CLEAN ENERGY LIMITED
ABN 69 009 237 736
AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	Consolidated Group	
		2017	**2016**
		$	**$**
CURRENT ASSETS			
Cash and cash equivalents	9	16,202,143	8,200,500
Trade and other receivables	10	6,735,661	723,737
Inventories	33	1,389,218	-
Other assets	16	3,278	34,600
TOTAL CURRENT ASSETS		24,330,300	8,958,837
NON-CURRENT ASSETS			
Trade and other receivables	10	575,182	460,000
Available for sale financial assets	11	12,414	12,414
Other financial assets	19	-	3,690,000
Investment accounted for using the equity method	13,31	-	5,047,919
Property, plant and equipment	14	6,501,304	494,724
Intangibles	15	96,644,810	83,998,065
Other non-current assets	16	-	67,552
TOTAL NON-CURRENT ASSETS		103,733,710	93,770,674
TOTAL ASSETS		128,064,010	102,729,511
CURRENT LIABILITIES			
Trade and other payables	17	6,044,754	2,691,965
Short-term provisions	18	728,878	427,096
Short-term borrowings	19	2,785,468	-
TOTAL CURRENT LIABILITIES		9,559,100	3,119,061
NON-CURRENT LIABILITIES			
Trade and other payables	17	570,819	33,169
Long-term provision	18	273,399	207,470
Long-term borrowings	19	4,733,715	3,423,035
TOTAL NON-CURRENT LIABILITIES		5,577,933	3,663,674
TOTAL LIABILITIES		15,137,033	6,782,735
NET ASSETS		112,926,977	95,946,776
EQUITY			
Issued capital	20	185,212,910	154,019,255
Reserves	21	2,913,540	3,960,346
Accumulated losses		(75,199,473)	(62,032,825)
TOTAL EQUITY		112,926,977	95,946,776

The accompanying notes form part of these financial statements.

CARNEGIE CLEAN ENERGY LIMITED
ABN 69 009 237 736
AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 30 JUNE 2017

Consolidated Group	Note	Issued Capital	Accumulated Losses	Foreign Currency Reserve	Option Reserve	Total
Balance at 1.7.2015		144,940,603	(60,565,270)	1,680	7,862,134	92,239,147
Comprehensive loss						
Loss for the year		-	(6,349,387)	-	-	(6,349,387)
Other comprehensive income		-	-	487	-	487
Total comprehensive loss for the year		-	(6,349,387)	487	-	(6,348,900)
Transactions with owners						
Share capital issued during the year		9,183,376	-	-	-	9,183,376
Capital raising costs		(104,724)	-	-	-	(104,724)
Equity portion of convertible notes		-	-	-	379,733	379,733
Share based payment expense		-	-	-	598,144	598,144
Share based payment expired unexercised and exercised		-	4,881,832	-	(4,881,832)	-
Total transactions with owners		9,078,652	4,881,832	-	(3,903,955)	10,056,529
Balance at 30.6.2016		**154,019,255**	**(62,032,825)**	**2,167**	**3,958,179**	**95,946,776**
Balance at 1.7.2016		154,019,255	(62,032,825)	2,167	3,958,179	95,946,776
Comprehensive loss						
Loss for the year		-	(14,382,638)	-	-	(14,382,638)
Other comprehensive income		-	-	5,488	-	5,488
Total comprehensive loss for the year		-	(14,382,638)	5,488	-	(14,377,150)
Transactions with owners						
Share capital issued during the year		31,554,230	-	-	-	31,554,230
Capital raising costs		(360,575)	-	-	-	(360,575)
Equity portion of convertible notes		-	-	-	32,113	32,113
Transfer of equity portion of convertible note on exercise		-	668,977	-	(668,977)	-
Share based payment expense		-	-	-	131,583	131,583
Share based payment expired unexercised and exercised		-	547,013	-	(547,013)	-
Total transactions with owners		31,193,655	1,215,990	-	(1,052,294)	31,357,351
Balance at 30.6.2017		**185,212,910**	**(75,199,473)**	**7,655**	**2,905,885**	**112,926,977**

The accompanying notes form part of these financial statements.

CARNEGIE CLEAN ENERGY LIMITED

ABN 69 009 237 736

AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR ENDED 30 JUNE 2017

	Note	Consolidated Group	
		2017	2016
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		10,542,486	142,218
Receipts from Royalties		677,918	1,034,883
Interest received		141,994	280,308
Interest paid		(265,704)	(13,027)
Payments to suppliers and employees		(25,230,105)	(10,091,839)
Receipts from R&D Tax Rebate		3,142,973	14,049,871
Receipts from Government grant funding		1,847,436	1,284,982
Net cash (used in)/provided by operating activities	25	(9,143,002)	6,687,396
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for development of asset		(3,296,547)	(3,574,778)
Purchase of property, plant and equipment		(6,280,359)	(238,233)
Proceeds from sale of property, plant and equipment		818	-
Payments for purchase of financial assets	19	3,690,000	(3,690,000)
Net proceeds from acquisition of subsidiaries	31	264,313	-
Payments for investment		-	(3,176,027)
Net cash (used in) investing activities		(5,621,775)	(10,679,038)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of shares		18,417,940	7,467,306
Net proceeds from issue of convertible notes		4,873,684	-
Repayment of borrowings		(527,762)	-
Net cash provided by financing activities		22,763,861	7,467,306
Net (decrease)/increase in cash held		7,999,085	3,475,664
Cash and cash equivalents at beginning of financial year		8,200,500	4,724,794
Effect of exchange rate fluctuations on cash held		2,558	42
Cash and cash equivalents at end of financial year	9	16,202,143	8,200,500

The accompanying notes form part of these financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Carnegie Clean Energy Limited ("the Company") is a company domiciled in Australia. The consolidated financial statements of the company as at and for the twelve months ended 30 June 2017 comprise the Company and its subsidiaries ("the Consolidated Group").

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

The consolidated financial statements were authorised for issue by the Board of Directors on 22 September 2017.

Basis of Preparation

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

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

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

New and amended accounting standards and interpretations

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Policies

Principles of Consolidation

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

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 12 to the financial statements.

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

Income Tax

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

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

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

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

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

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

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, associates, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment

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

Plant and equipment

Plant and equipment are measured on the cost basis.

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

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

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

Depreciation

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

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

Class of Fixed Asset	*Depreciation Rate*
Plant and equipment	1.0% – 50.0%

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

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

Leases

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

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

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

Recognition and Initial Measurement

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

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

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

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

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

i. *Loans and receivables*

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

ii. *Available-for-sale financial assets*

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

iii. *Financial liabilities*

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

Fair value

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (Continued)

Impairment

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

Derecognition

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

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. Where appropriate they are subsequently measured at amortised cost using the effective interest method.

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

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

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

Finance Costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

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

Impairment of Assets including Goodwill

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

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Assets including Goodwill (continued)

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

Intangible Asset – Acquired Intellectual Property and Development Costs

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

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

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

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

Class of Intangible Asset	*Useful Life*
Microgrid/battery technology development asset	7 years

Functional and presentation currency

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

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

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

Exchange differences arising on the translation of any gain or loss on non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Exchange differences arising on monetary items that form part of the Groups investment in a foreign operation are recognised in the income statement in the separate financial statements of the parent entity. On consolidation, such exchange differences are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

Employee Benefits

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity-settled compensation

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to the Option Reserve. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

The cumulative cost recognised until settlement is a liability and the periodic determination of this liability is as follows:

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

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

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

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

The fair value of the liability is determined, initially and at each reporting date until it is settled, by applying the Black-Scholes option pricing model, considering the terms and conditions on which the benefit was granted, and to the extent to which employees have rendered service to date.

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

Provisions

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

Cash and Cash Equivalents

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

Revenue and Other Income

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

Revenue from the solar and battery microgrid engineering and construction operation is measured by physical completion as certified by the project manager less progress billings and less provision for foreseeable losses, allocated between amounts due from customers and amounts due to customers. Revenue for variations is recognised when it is probable the variation will be approved by the customer and the amount of revenue can be reliability measured.

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Other Income (Continued)

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

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

Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost on a weighted average basis
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

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

Associates

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

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

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

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the consolidated group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the fair value of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed).

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business Combinations and Goodwill (Continued)

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and recognises the additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at acquisition date. The measurement period ends on either the earlier of (i) 12 months from the date of acquisition or (ii) when the acquirer received all the information possible to determine fair value.

Trade and Other Payables

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

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

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

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

Government Grants and Research and Development Tax Incentives

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

Earnings/(loss) per share

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

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

Fair Value Measurement

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

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are

available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

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

Contributed Equity

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

Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

When the Group applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be disclosed.

New Accounting Standards for Application in Future Periods

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group has yet to commence an assessment of the impact of AASB 9. Management intend to commence the development of an implementation plan prior to 30 June 2018. It is expected the plan will likely involve the establishment of an implementation team whose responsibility will be to firstly gain a clear understanding of the requirements of the new Standard, and thereafter assess the potential impact on the Group (in the form of accounting and disclosure, taxation, systems, processes, and internal controls) of the new Standard. This assessment will then establish the areas that require change for the purposes of full implementation. As part of finalising the plan, Management will determine the appropriate adoption date and transition method, as well as ensuring appropriate communication with relevant stakeholders.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards for Application in Future Periods (Continued)

AASB 15 Revenue from Contracts with Customers

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

The Group has yet to commence an assessment of the impact of AASB 15. Management intend to commence the development of an implementation plan prior to 30 June 2018. It is expected the plan will likely involve the establishment of an implementation team whose responsibility will be to firstly gain a clear understanding of the requirements of the new Standard, and thereafter assess the potential impact on the Group (in the form of accounting and disclosure, taxation, systems, processes, and internal controls) of the new Standard. This assessment will then establish the areas that require change for the purposes of full implementation. As part of finalising the plan, Management will determine the appropriate adoption date and transition method, as well as ensuring appropriate communication with relevant stakeholders.

AASB 16 Leases

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards for Application in Future Periods (Continued)

AASB 16 Leases (Continued)

For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group has yet to commence an assessment of the impact of AASB 16. Management intend to commence the development of an implementation plan prior to 30 June 2018. It is expected the plan will likely involve the establishment of an implementation team whose responsibility will be to firstly gain a clear understanding of the requirements of the new Standard, and thereafter assess the potential impact on the Group (in the form of accounting and disclosure, taxation, systems, processes, and internal controls) of the new Standard. This assessment will then establish the areas that require change for the purposes of full implementation. As part of finalising the plan, Management will determine the appropriate adoption date and transition method, as well as ensuring appropriate communication with relevant stakeholders.

Significant accounting judgements, estimates and assumptions

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

Impairment of development asset

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

Annual impairment testing is also carried out for all intangible assets with indefinite useful lives (refer to Note 15).

Useful lives of available for use intangible assets

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

Business combinations and goodwill

When the consolidated group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of *AASB 139 Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognized in the statement of profit or loss (refer to Note 15(c)). Goodwill is measured as the excess of the fair value of consideration transferred and the amount of non-controlling interest in the acquire over the net assets acquired.

Share based payment transactions

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instrument at the date at which they are granted. The fair value is determined by using the Black Scholes formula taking into consideration the terms and conditions upon which the instruments are granted (refer to Note 29).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2: REVENUE AND OTHER INCOME

	Consolidated Group	
	2017	**2016**
	$	**$**
Sales revenue		
Solar, battery and microgrid	4,598,030	200,375
Royalty income (i)	452,591	882,798
Other income		
Interest income	157,942	294,538
Gain on property, plant and equipment sale	869	690
Realised gain on foreign exchange	(35,119)	(20,496)
	123,692	274,732

i. The Group holds a mining royalty with respect to a gold deposit in Western Australia. Under the royalty agreement, the Group receives a payment per ounce of gold extracted by third parties. The past and any future royalty income stream requires no expenditure or resources by the Company. Mining operations related to the royalty ceased as of 1 January 2017.

NOTE 3: SHARE OF (LOSS)/PROFITS OF ASSOCIATE ACCOUNTED FOR USING THE EQUITY METHOD

		Consolidated Group	
Share of (loss)/profit	**Notes**	**2017**	**2016**
		$	**$**
Energy Made Clean Group	31(a)	(578,981)	371,892
EMC Kimberley Pty Ltd	31(b)	(100)	-
		(579,081)	371,892

NOTE 4: LOSS FOR THE YEAR

		Consolidated Group	
The following expense items are relevant in explaining the financial performance for the reporting year:	**Notes**	**2017**	**2016**
		$	**$**
Amortisation – intellectual property	15(b)	1,111,773	-
Depreciation – property, plant and equipment	14(a)	289,347	117,072
		1,401,120	117,072
Doubtful debts expense		20,000	-

NOTE 5: INCOME TAX EXPENSE

		Notes	Consolidated Group 2017 $	2016 $
a.	The components of tax expense comprise:			
	Current tax		-	(981,216)
	Deferred tax		-	981,216
			-	-

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

		2017 $	2016 $
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2016: 30%)			
—	Consolidated Group	(4,314,791)	(1,904,816)
Add:			
Tax effect of:			
—	Tax rate differential	1,589	43,341
—	Fair value loss on consolidation of EMC	490,830	-
—	Other non-allowable items	35,748	5,391
—	Non-deductible R&D costs	211,872	194,110
—	Assessable government grants	521,776	385,495
—	Share of loss/(profit) from equity accounted investment	173,724	(95,540)
—	Recognition of previously unrecognised tax losses	-	(3,304,153)
—	Share options expensed during year	39,475	179,443
—	Movement in deferred tax balances not recognised	2,839,777	83,762
—	Under/(over) provided in prior periods	-	4,412,967
Income tax attributable to entity		-	-
Current tax benefit		-	-

The Group has tax losses carried forward of $48,685,443 (2016: $37,620,946). The tax losses do not expire under current tax legislation. Deferred tax asset has not been recognised in respect of tax losses carried forward as a formal assessment of the recoverability of the tax losses under the current tax legislation has not been performed.

NOTE 6: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP)

Refer to the Remuneration Report contained in the Report of the Directors for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2017.

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

Key Management Person	*Position*
Jeffrey Harding	Non-Executive Chairman
Michael Ottaviano	Managing Director
John Davidson	Executive Director and Managing Director of Energy Made Clean Pty Ltd (KMP from 2 December 2016)
John Leggate	Non-Executive Director
Kieran O'Brien	Executive Director
Michael Fitzpatrick	Non-Executive Director
Grant J Mooney	Non-Executive Director and Company Secretary
Greg Allen	Chief Operating Officer

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

	2017 $	**2016 $**
Short term employee benefits	1,783,499	1,540,431
Share based payments	255	23,830
Other long term benefits	30,364	35,839
Post-employment benefits	77,448	61,377
	1,891,566	1,661,477

b. **Options and Rights Holdings**

Movement in equity settled options held by key management personnel is detailed below:

	Balance 1.7.2016	**Granted as Compensation**	**Options Exercised**	**Net Change Other**	**Balance 30.6.2017**
Michael Fitzpatrick	5,000,000	-	-	-	5,000,000
Jeffrey Harding	5,000,000	-	-	-	5,000,000
Grant Mooney	15,000,000	-	-	-	15,000,000
Kieran O'Brien	10,000,000	-	-	-	10,000,000
John Leggate	5,000,000	-	-	-	5,000,000
Greg Allen	5,000,000	-	-	-	5,000,000
Total	45,000,000	-	-	-	45,000,000

NOTE 6: INTERESTS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

Details of equity settled options for key management personnel outstanding at balance sheet date are as follows:

Key Management Personnel	Vested No.	Granted No.	Terms & Conditions for Each Grant: Grant Date	Value per Option at Grant Date	Exercise Price	First Exercise Date	Last Exercise Date
Michael Fitzpatrick	5,000,000	5,000,000	25 Nov 2013	2.11 cents	6.5 cents	25 Nov 2013	24 Nov 2018
Jeffrey Harding	5,000,000	5,000,000	25 Nov 2013	2.11 cents	6.5 cents	25 Nov 2013	24 Nov 2018
Grant Mooney	15,000,000	15,000,000	25 Nov 2013	2.11 cents	6.5 cents	25 Nov 2013	24 Nov 2018
Kieran O'Brien	10,000,000	10,000,000	25 Nov 2013	2.11 cents	6.5 cents	25 Nov 2013	24 Nov 2018
John Leggate	5,000,000	5,000,000	25 Nov 2013	2.11 cents	6.5 cents	25 Nov 2013	24 Nov 2018
Greg Allen	5,000,000	5,000,000	4 Jul 2014	1.86 cents	7.3 cents	4 Jul 2015	3 Jul 2017
	45,000,000	45,000,000					

All options were granted for nil consideration.

c. **Shareholdings**

Number of Shares held by Key Management Personnel

	Balance 1.7.2016	Received as Compensation	Options Exercised	Net Change Other	Balance 30.6.2017
Michael Fitzpatrick	125,365,359	-	-	-	125,365,359
Michael Ottaviano	39,790,000	-	-	(4,790,000)	35,000,000
John Davidson	-	-	-	297,366,738*	297,366,738
Jeffrey Harding	1,196,845	-	-	149,254	1,346,099
Grant J Mooney	2,553,651	-	-	74,627	2,628,278
Kieran O'Brien	170,000	-	-	-	170,000
John Leggate	100,000	-	-	-	100,000
Greg Allen	3,000	-	-	-	3,000
Total	169,178,855	-	-	292,800,619	461,979,474

* On 2 December 2016, 297,142,857 ordinary shares were issued to Mr Davidson as part consideration for the Company's acquisition of the remaining 65% interest in the Energy Made Clean Group (refer to Note 32). 223,881 ordinary shares were subsequently issued as part of a Share Purchase Plan on 24 April 2017 (refer to Note 20).

NOTE 7: AUDITORS' REMUNERATION

	Consolidated Group 2017 $	2016 $
Remuneration of the auditor of the Group for:		
• Auditing or reviewing the financial report	105,500	82,500

NOTE 8: EARNINGS PER SHARE

	Consolidated Group	
	2017	**2016**
Basic loss per share (cents per share)	(0.647)	(0.337)
Diluted loss per share (cents per share)	(0.647)	(0.337)

		Consolidated Group	
		2017	**2016**
(a)	*Reconciliation of earning to Net Loss*	**$**	**$**
	Loss used in the calculation of basic EPS	(14,382,638)	(6,349,387)
	Loss used in the calculation of diluted EPS	(14,382,638)	(6,349,387)

		Consolidated Group	
		2017	**2016**
(b)	Weighted average number of ordinary shares used in calculation of weighted average earnings per share	2,223,789,062	1,886,387,319

As at 30 June 2016 and 30 June 2017, the outstanding options were not dilutive as the weighted average exercise price of the options were higher than the weighted average share price for the year.

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

NOTE 9: CASH AND CASH EQUIVALENTS

	Consolidated Group	
	2017	**2016**
	$	**$**
Cash on hand	3,226	606
Cash at bank	16,198,917	8,199,894
	16,202,143	8,200,500

NOTE 10: TRADE AND OTHER RECEIVABLES

Consolidated Group	Gross Amount	Past due but not impaired (days overdue)			Within trade terms
2017		**1-30**	**31-60**	**61+**	
	$	**$**	**$**	**$**	**$**
CURRENT					
Trade receivables	1,647,427	16,974	-	788,278	842,175
Provision for doubtful debts	(100,000)	-	-	(100,000)	-
Net trade receivables	1,547,427	16,974	-	688,278	842,175
Prepayments	800,372	-	-	-	800,372
Accrued revenue	1,331,736	-	-	-	1,331,736
Amount on retention	212,488	-	-	-	212,488
Other receivables	2,736,503*	-	-	-	2,736,503
Security deposits	107,135	-	-	-	107,135
	6,735,661	16,974	-	688,278	6,30,409
NON-CURRENT					
Security deposits	575,182	-	-	-	575,182
	575,182	-	-	-	575,182

*Includes $2,260,595 in research and development tax incentives receivable.

Consolidated Group	Gross Amount	Past due but not impaired (days overdue)			Within trade terms
2016		**1-30**	**31-60**	**61+**	
	$	**$**	**$**	**$**	**$**
CURRENT					
Trade receivables	3,337	-	-	3,337	-
Prepayments	90,521	-	-	-	90,521
Accrued revenue	295,462	-	-	-	295,462
Other receivables	74,417	-	-	-	74,417
Security deposits	260,000	-	-	-	260,000
	723,737	-	-	3,337	720,400
NON-CURRENT					
Security deposits	460,000	-	-	-	460,000
	460,000	-	-	-	460,000

NOTE 11: AVAILABLE FOR SALE FINANCIAL ASSETS

	Notes	Consolidated Group 2017 $	2016 $
Available for sale financial assets	a	12,414	12,414

a. **Available for sale financial assets comprise:**

Unlisted investment, at cost:		
— shares in other corporations	12,414	12,414

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

The fair value of unlisted available for sale financial assets cannot be reliably measured. As a result, all unlisted investments are reflected at cost.

NOTE 12: INTERESTS IN SUBSIDIARIES

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

	Country of Incorporation	Percentage Owned (%)(i) 2017	2016
Carnegie Recreational Watercraft Pty Ltd	Australia	100	100
CETO IP (Australia) Pty Ltd	Australia	100	100
CETO Wave Energy Chile	Chile	100	100
CETO Wave Energy Ireland	Ireland	100	100
CETO Wave Energy UK	United Kingdom	100	100
Clear Energy Pty Ltd	Australia	100	35
CMA Nominees Pty Ltd (iii)	Australia	100	100
EMC Engineering Australia Pty Ltd (iii)	Australia	100	35
Energy Made Clean Pty Ltd (ii)	Australia	100	35
New Millennium Engineering Pty Ltd	Australia	100	100
Pacific Coastal Wave Energy Corp.	Canada	95	95
Solar Farm Cunderdin Pty Ltd (iii)	Australia	100	35
Solar Farm Jurien Bay Pty Ltd (iii)	Australia	100	35
Solar Farm Kellerberrin Pty Ltd (iii)	Australia	100	35
Solar Farm Moora Pty Ltd (iii)	Australia	100	35
Solar Farm Southern Cross Pty Ltd (iii)	Australia	100	35

i. Percentage of voting power is in proportion to ownership.
ii. For the year ended 30 June 2016 was recognised as an interest in associate and not a subsidiary (refer to note 31).
iii. 100% subsidiaries of Energy Made Clean Pty Ltd. The interests held as at 30 June 2016 were held indirectly through the Company's 35% interest in Energy Made Clean Pty Ltd.

NOTE 13: INVESTMENT ACCOUNTED FOR USING EQUITY METHOD

	Consolidated Group	
	2017	**2016**
	$	**$**
Investment in associate (refer to Note 31)	-	5,047,919

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group	
	2017	**2016**
	$	**$**
Plant and equipment:		
At cost	7,459,208	1,354,935
Accumulated depreciation	(957,904)	(860,211)
Total plant and equipment	6,501,304	494,724

a. **Movements in Carrying Amounts**

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

	Plant and Equipment
2017	**$**
Consolidated Group:	
Balance at the beginning of year	494,724
Additions	5,448,136
Assets acquired as part of business acquisition (refer to Note 32)	893,514
Disposals	(43,491)
Depreciation expense	(289,347)
Depreciation capitalised to intangible asset development	(2,232)
Carrying amount at the end of year	6,501,304
2016	
Consolidated Group:	
Balance at the beginning of year	402,488
Additions	209,308
Disposals	-
Depreciation expense	(117,072)
Carrying amount at the end of year	494,724

NOTE 15: INTANGIBLE ASSETS

Intangible assets can be broken down as follows:

a) Intangibles – CETO technology development asset	Consolidated Group 2017 $	Consolidated Group 2016 $
Initial acquisition cost of CETO Technology – 2009	55,989,877	55,989,877
Subsequent development expenditure – CETO Technology	72,301,647	64,794,474
Grants and R&D tax incentives received	(44,293,459)	(30,682,103)
Balance as at 1 July	83,998,065	90,102,248
Movements for year ended 30 June 2017		
Subsequent development expenditure – CETO Technology	6,294,186	7,507,173
Other grants received	(1,847,436)	(1,284,982)
R&D tax incentive	(5,403,568)	(12,326,374)
Balance as at 30 June	83,041,247	83,998,065

The CETO technology has yet to be commercialised and is in the development phase, therefore the fair value less cost of disposal has been determined to be the most appropriate basis for determining recoverable amount. The recoverable amount of the CETO technology represents the present value of the future cash flows expected to be derived from the further development and commercialisation of the CETO technology less cost of disposal.

The determination of fair value is based on 'fair value' as defined under *AASB 13: Fair Value Measurement.* At 30 June 2017, the fair value has been estimated to be greater than the carrying value of the CETO technology of $83 million, accordingly no net impairment loss has been recognised.

Fair value was determined by the Company engaging a suitably qualified independent consultant after the conclusion of the financial year to prepare an independent valuation report. Cash flows are analysed by the independent consultant over a 25-year period approved by management for the years from 2017 to 2042. The period is consistent with the long-term value of a new infrastructure technology and is consistent with comparable energy industry project lives.

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

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

- The timing of the development of a product that can be launched commercially;
- The Company will earn a profit margin based as a percentage of the manufacturing cost of CETO units sold;
- Forecast sales are based on a minority market share of the world's installed wave energy capacity annually to 2050;
- Other significant cost assumptions, including ongoing SG&A costs and corporate costs;
- Inflation is assumed to be 2.5% in all forecast periods;
- The Consolidated Group will have access to sufficient funding to complete the CETO development through to commercialisation (See Note 23); and
- A post-tax discount rate of 20.0% to incorporate risks associated with commercialising a wave energy technology based on the range of 17.5% to 22.5%. In deriving these discount rates, a specific risk premium range of 8.5% to 14.0% has been included given the nature, size and relatively early stage of commercial development.

NOTE 15: INTANGIBLE ASSETS (CONTINUED)

As discussed above, Carnegie has adopted the fair value less cost of disposal to determine the recoverable amount of the CETO technology. This fair value has been determined on the basis of the fair value measurement hierarchy outlined in AASB 13. The fair value has been determined using unobservable inputs and is therefore considered to be a Level 3 asset. The Level 3 assets unobservable inputs are as follows:

Key Assumptions	**Range**
Timing of commercialisation	No delay to five-year delay
Carnegie's market share	2023 to 2030: 15-30% 2031 to 2040: 10-25% 2041 to 2050: 5-20%
Profit Margin	10% to 20%
SG&A costs	0.5% to 5.0%

b) Intangibles – Microgrid/battery technology development assets

	Consolidated Group	
	2017 **$**	**2016** **$**
Acquisition of Energy Made Clean (refer to Note 32)	5,847,244	-
Amortisation	(1,111,773)	
	4,735,471	-

c) Intangibles – Goodwill

The carrying amount of goodwill acquired on the acquisition of Energy Made Clean (refer to Note 32) is allocated to the following cash-generating units:

	Consolidated Group	
	2017 **$**	**2016** **$**
CETO wave energy technology	4,434,046	-
Solar & battery engineering, procurement, and construction	4,434,046	-
	8,868,092	-

Impairment Testing

Goodwill allocated to the CETO wave energy technology cash-generating unit has been assessed for impairment as part of the impairment testing of the CETO technology development asset (refer to Note 15(a)).

The recoverable amount of the goodwill allocated to the solar and battery engineering, procurement and construction cash-generating unit has been determined by a value-in-use calculation using a discounted cash flow model, based on the current list of known projects and the expectations in relation to the likelihood of success, together with a terminal value.

NOTE 15: INTANGIBLE ASSETS (CONTINUED)

c) *Intangibles – Goodwill (Continued)*

The following key assumptions were used in the discounted cash flow model:

- Post tax nominal discount rate based on a weighted average cost of capital of 17.5% to 22.5%;
- Inflation of 2% per annum including for the terminal value calculation; and
- Likelihood of success in turning the current list of know projects at proposal and tender stages into projects won based on managements' past experiences.

The discount rate of 17.5% to 22.5% includes a specific risk premium range of 8.0% to 12.0% due to the nature, size and relative early stage of the Energy Made Clean Lend Lease Services joint venture, from which the majority of revenue for the cash-generating unit is assumed will be derived from.

NOTE 16: OTHER ASSETS

	Consolidated Group	
	2017 **$**	**2016** **$**
CURRENT		
Deferred expenses	3,278	34,600
	3,278	34,600
NON-CURRENT		
Deferred expenses	-	67,552
	-	67,552

NOTE 17: TRADE AND OTHER PAYABLES

	Consolidated Group	
	2017 **$**	**2016** **$**
CURRENT		
Trade creditors	3,002,736	579,611
Accruals	2,381,704	2,055,177
Other	660,314	57,177
	6,044,754	2,691,965

NOTE 17: TRADE AND OTHER PAYABLES (CONTINUED)

NON-CURRENT		
Trade creditors*	570,819	33,169
	570,819	33,169

* Included within non-current trade and other payables is an amount of contingent cash consideration of $428,670 related to the acquisition of Energy Made Clean ("EMC"). The contingent cash consideration is payable to EMC's Managing Director and founder John Davidson and is dependent upon the achievement of reaching, or partially reaching, a target of $50 million revenue for the EMC business for the two-year period ending 30 June 2018.

The maximum contingent cash consideration payable under the EMC Share Sale Agreement is $1,000,000. The Directors have determined the fair value of the contingent cash consideration to be $428,670 at 30 June 2017. This was determined using a 50% probability weighting for achieving the revenue target and after discounting the future value of the cash payments. The 50% probability was determined by management through forward sales analysis of budgeted versus actual sales and the historical revenue achieved over the period to 30 June 2017. At the time of EMC's acquisition the fair value of the contingent cash consideration was determined to be $679,012 (refer to Note 32) based on a 75% probability weighting.

The fair value of this contingent cash consideration has been determined in accordance with AASB 3, as outlined in Note 32.

NOTE 18: PROVISIONS

	Consolidated Group	
Analysis of Total Provisions	**2017**	**2016**
	$	**$**
Current	728,878	427,096
Non-current	273,399	207,470
	1,002,277	634,566

	Annual, Long Service Leave and Other Employee Provisions
	$
Opening balance at 1 July 2016	634,566
Additional provisions	85,240
Provisions assumed as part of business acquisition (refer to Note 32)	282,471
Balance at 30 June 2017	1,002,277

Provision for Long-Term Employee Benefits

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

NOTE 19: BORROWINGS

a. Convertible notes

	Consolidated Group 2017 $	Consolidated Group 2016 $
CURRENT		
CCE convertible notes (i)	2,785,468	-
Current	2,785,468	-
NON-CURRENT		
CCE convertible notes (i)	-	3,423,035
EMC convertible notes (ii)	4,733,715	-
Non-current	4,733,715	3,423,035
Total	7,519,183	3,423,035

	Consolidated Group 2017 $	Consolidated Group 2016 $
Balance at the beginning of the period	3,423,034	3,561,081
Placement of new convertible notes (ii)	5,000,000	-
Equity component of convertible notes	(32,113)	(379,733)
Conversion to equity during the period (i)	(890,000)	-
Unwinding of finance costs	144,578	241,687
Issue costs (ii)	(126,316)	-
	7,519,183	3,423,035

i. On 18 November 2013, the Company completed a capital raising of $4.0 million by issuing 4,000 unlisted Convertible Notes at an issue price of $1,000 each (“Senior Notes”). Other financial assets as at 30 June 2016 consisted of amounts held under guarantee for the repayment of 3,690 outstanding Senior Notes (Totalling $3,690,000). These Senior Notes were cancelled and reissued on 17 November 2016 such that they no longer require amounts held under guarantee. The reissued notes have an 8.0% coupon rate (original notes: 0%) and a 3.8 cents conversion price convertible to equity at any time at the discretion of the Senior Note holder. During the year 890 notes were converted into 23,451,055 ordinary shares in Carnegie Clean Energy Ltd (refer to Note 20). As at the reporting date there are 2,800 Senior Notes on issue which mature on 17 November 2017.

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

NOTE 19: BORROWINGS (CONTINUED)

b. Senior loan facility

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

	Consolidated Group	
	2017	**2016**
	$	**$**
Total facilities		
Bank loans	-	21,000,000
	-	21,000,000
Used at the reporting date		
Bank loans	-	-
	-	-
Unused at the reporting date		
Bank loans	-	21,000,000
	-	21,000,000

On 19 November 2015, the Company signed a five-year loan facility for $21 million with the Commonwealth Bank of Australia (“Facility”). This was signed to provide funding for the next stage of CETO technology development and commercialisation and part financing for the Garden Island Microgrid project. As part of the convertible notes reissue (refer to Note 19(a)) the Facility was placed on standby and no new debt able to be drawn. The Facility was subsequently closed on 17 November 2016.

NOTE 20: ISSUED CAPITAL

	Consolidated Group	
	2017	**2016**
	$	**$**
2,599,475,784 (2016: 1,997,849,888) fully paid ordinary shares	185,212,910	154,019,255
	185,212,910	154,019,255

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

NOTE 20: ISSUED CAPITAL (CONTINUED)

		2017 No.	2016 No.
a.	**Ordinary shares**		
	At the beginning of reporting period	1,997,849,888	1,766,571,657
	Shares issued during the year		
	— 1 September 2015	-	1,123,470
	— 20 November 2015	-	4,545,455
	— 27 November 2015	-	181,491,659
	— 19 April 2016	-	44,117,647
	— 2 December 2016	297,142,857	-
	— 12 January 2017	3,000,000	-
	— 23 January 2017	1,250,000	-
	— 24 January 2017	2,250,000	-
	— 1 February 2017	1,836,986	-
	— 16 February 2017 (refer to Note 19(a)(i))	1,052,632	-
	— 14 March 2017	3,500,000	-
	— 24 April 2017	285,646,052	-
	— 23 June 2017 (refer to Note 19(a)(i))	5,947,369	-
	At reporting date	2,599,475,784	1,997,849,888

(1) On 2 December 2016, 297,142,857 ordinary shares were issued as part consideration for the Company's acquisition of the remaining 65% interest in the Energy Made Clean Group. The issue of these shares was considered to be a non-cash investing activity for the purposes of AASB 107 (refer to Note 32).

(2) Between 12 January 2017 and 14 March 2017, 11,836,986 shares were issued to employees on the exercise of options issued pursuant to an Employee Share Option Plan. 6,500,000 shares were issued at $0.054 per share and 5,336,986 shares at $0.073 per share.

(3) On 16 February, 1,052,632 shares were issued on the conversion of convertible notes. The shares had an effective issue price of $0.038 per share.

(4) On 24 April 2017, the Company raised $4,672,500 by issuing 220,336,567 ordinary shares pursuant to a Share Purchase Plan to existing shareholders at an issue price of $0.067 per share. $3,275,525 was additionally raised by the issuing of 48,888,428 ordinary shares in a private placement to sophisticated investors also at an issue price of $0.067 per share. In addition to this, 16,421,055 ordinary shares were issued upon the conversion of 624 convertible notes (refer to Note 19(a)(i)).

NOTE 20: ISSUED CAPITAL (CONTINUED)

b. **Capital Management**

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

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

There are no externally imposed capital requirements.

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

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

NOTE 21: RESERVES

		Consolidated Group	
		2017 **$**	**2016** **$**
a.	**Foreign Currency Translation Reserve**		
	The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries and foreign currencies	7,655	2,167
b.	**Option Reserve**		
	The option reserve records items recognised as expenses on valuation of share options and share based payments including loan funded shares	2,905,885	3,958,179
	Total	2,913,540	3,960,346

NOTE 22: CAPITAL AND LEASING COMMITMENTS

		Consolidated Group	
		2017 **$**	**2016** **$**
(a)	**Operating and Finance Lease Commitments**		
	Not later than 1 year	712,371	283,798
	Later than 1 year but not later than 5 years	593,939	482,796
	Later than 5 years	-	-
		1,306,310	766,594

Operating leasing commitments consist of property leases for three properties including the Company's head office. They are all non-cancellable leases with the longest lease having an expiring term of 3 years, expiring on 30 April 2019.

Finance lease commitments consist of amounts for plant and equipment.

NOTE 23: BUSINESS RISK

In the financial year ended 30 June 2017, the Group incurred an operating loss of $14.4 million (2016: $6.3 million). As at 30 June 2017, the Group had an accumulated deficit of $75.3 million. The majority of the accumulated deficit has resulted from costs incurred in the CETO technology development program, and from associated general and administrative costs.

As the Group continues to develop its proprietary technologies, and further develop microgrid opportunities on a profitable basis within Energy Made Clean, it expects to have a net decrease in cash from operating activities until it achieves positive cash flow.

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

NOTE 24: OPERATING SEGMENTS

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

The Group is organised into two operating segments:

1) The CETO wave energy technology/microgrid build, own, operator, which:
   - Is developing and commercialising technology for zero-emission electricity generation from ocean swell, and
   - The production and selling of energy through the ownership of microgrids; and
2) Solar and battery engineering, procurement, and construction, which designs and installs solar, battery, and microgrid infrastructure for sale.

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

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

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

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

2017	CETO wave energy technology/ microgrid BOO	Solar & battery engineering, procurement, and construction*	Total segments	Adjustments and eliminations	Consolidated
Revenue					
External customers	-	4,598,030	4,598,030	-	4,598,030
Inter-segment	-	643,322	643,322	(643,322)	-
	-	5,241,352	5,241,352	(643,322)	4,598,030

NOTE 24: OPERATING SEGMENTS (CONTINUED)

2017	CETO wave energy technology/ microgrid BOO	Solar & battery engineering, procurement, and construction*	Total segments	Adjustments and eliminations	Consolidated
Segment loss	(6,199,598)	(6,887,128)*	(13,086,726)	(1,295,912)	(14,382,638)
Total assets	123,064,849	16,751,968	139,816,817	(11,752,807)	128,064,010
Total liabilities	413,727	8,475,917	8,889,644	6,247,389	15,137,033

**The solar and battery engineering, procurement and construction segment covers the period from 2 December 2016 to 30 June 2017. This represents the portion of the reporting period post the acquisition of the remaining 65% interest in the Energy Made Clean Group.*

No comparative information has been disclosed as 30 June 2017 is the first reporting period in which the Group's operations consisted of more than one operating segment. Prior to the acquisition of the EMC operations, the financial information presented in the statement of comprehensive income and statement of financial position was the same as that presented to the chief operating decision makers.

NOTE 25: CASH FLOW INFORMATION

	Consolidated Group	
	2017	**2016**
	$	**$**
Reconciliation of Cash Flow from Operations with Loss after Income Tax		
Loss after income tax	(14,382,638)	(6,349,387)
Non-cash flows in profit		
Depreciation and amortisation	1,401,120	117,072
Net loss on disposal of assets	10,319	-
Net (gain)/loss on foreign exchange	(9,237)	20,497
Adjustment to fair value on the acquisition of remaining interest in former associate	1,636,101	-
Net gain on financial instruments at fair value	(250,343)	-
Share options & loan funded shares expensed	131,583	598,144
Finance costs	144,577	1,350,001
Doubtful Debts	20,000	492
Professional fees related to investment in associate	(19,197)	-
Share of loss/(profit) – associate	579,081	(371,892)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
Increase in trade and term receivables	3,855,851	322,677
Increase in inventory	(491,953)	-
Decrease/(increase) in non-current assets	57,330	(208,618)
(Increase)/decrease in development asset	(1,293,312)	11,215,606
(Increase)/decrease in intellectual property assets	(1,111,773)	-
Increase/(decrease) in trade payables and accruals	405,246	(27,926)
Increase in provisions	174,243	20,730
Cashflow provided by/(used in) operations	(9,143,002)	6,687,396

NOTE 26: EVENTS AFTER THE REPORTING PERIOD

a) On 1st August 2017, Carnegie commenced construction of the 2MW solar PV and 2MW/0.5MWh battery Garden Island Microgrid which also incorporates Carnegie's existing desalination plant. The project will sell all power and water produced to the Department of Defence for use by HMAS Stirling.

b) On 7th July 2017, Carnegie announced its 100% subsidiary Energy Made Clean was awarded the design and construction of a solar/battery/diesel microgrid for Lendlease Buildings on behalf of the Department of Defence. The microgrid will be installed at the Department of Defence's Delamere Air Weapons Range in the Northern Territory of Australia.

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

NOTE 27: RELATED PARTY TRANSACTIONS

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

Transactions and balances with Director related entities

a) Company secretarial services have been provided by Mooney & Partners Pty Ltd, a company associated with Grant Mooney during the financial year. These amounts have been included in the disclosures at Note 6. These transactions were undertaken under normal commercial terms.

b) On 11 January 2017, the Company completed a capital raising of $5.0 million by issuing 500 unlisted convertible notes (refer to Note 19(a)(ii)). 100 of the convertible notes with a face value of $1,000,000 were issued to Log Creek Pty Ltd of which Michael Fitzpatrick is a director. The carrying value of the 100 convertible notes was $946,743 as of 30 June 2017.

c) Balances outstanding with Director related entities

	2017 **$**	**2016** **$**
John Davidson		
Amount owing to Clean Energy Investment Holdings Limited	(1,667)	-
Amount owing from Solar Farm Carnarvon Pty Ltd	32,636	-
Contingent amount owing (refer to Note 17)	(428,670)	-

John Davidson is a director of Clean Energy Investment Holdings Limited and Solar Farm Carnarvon Pty Ltd. The balances outstanding to these entities were incurred prior to the acquisition of the remaining 65% interest in Energy Made Clean in December 2016.

Michael Fitzpatrick		
Amount owing to Log Creek Pty Ltd	(946,743)	-

Transactions and balances with Associates

a) Transactions with Associates

	2017 **$**	**2016** **$**
Sales to EMC Kimberley Pty Ltd	222,282	-
Purchases paid on behalf of EMC Kimberley Pty Ltd	20,236	-

NOTE 27: RELATED PARTY TRANSACTIONS (CONTINUED)

b) Balances outstanding with Associates

	2017 $	2016 $
Amount owing from EMC Kimberley Pty Ltd	243,180	-

Refer to Note 31 for further information on EMC Kimberley Pty Ltd.

NOTE 28: FINANCIAL RISK MANAGEMENT

(a) **Financial Risk Management Policies**

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

Interest rate risk

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

Consolidated Group	Weighted Average Effective Interest Rate %	Floating Interest Rate $	Fixed Interest Rate Maturing Within year $	Fixed Interest Rate Maturing 1 to 5 years $	Non-interest Bearing $	Total $
30 June 2017:						
Financial assets:						
Cash and cash equivalents	1.78	4,014,198	12,000,000	-	187,945	16,202,143
Receivables	2.28	-	607,317	-	6,703,526	7,310,843
Other financial assets	-	-	-	-	12,414	12,414
		4,014,198	12,607,317	-	6,903,885	23,525,400
Financial liabilities:						
Accounts payable		-	-	-	6,615,573	6,615,573
Borrowings	8.0	-	2,785,468	4,733,715	-	7,519,183
		-	2,785,468	4,733,715	6,615,573	14,134,756

NOTE 28: FINANCIAL RISK MANAGEMENT (CONTINUED)

Consolidated Group	Weighted Average Effective Interest Rate %	Floating Interest Rate $	Fixed Interest Rate Maturing		Non-interest Bearing $	Total $
30 June 2016:						
Financial assets:						
Cash and cash equivalents	1.92	2,198,110	6,000,000	-	2,390	8,200,500
Receivables	2.45	-	260,000	460,000	463,737	1,183,737
Other financial assets	2.49	-	-	3,690,000	12,414	3,702,414
		2,198,110	6,260,000	4,150,000	478,541	13,086,651
Financial liabilities:						
Accounts payable		-	-	-	2,725,134	2,725,134
Borrowings		-	-	-	3,423,035	3,423,035
		-	-	-	6,148,169	6,148,169

(b) **Credit Risk**

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

The Consolidated Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Consolidated Group. Details with respect to credit risk of trade and other receivables are provided in Note 10. The credit risk on liquid funds is limited because the counter parties are banks with high credit ratings.

(c) **Net fair value**

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

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

Financial Instruments Measured at Fair Value

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

— quoted prices in active markets for identical assets or liabilities (Level 1);

— inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and

— inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

NOTE 28: FINANCIAL RISK MANAGEMENT (CONTINUED)

Consolidated Group

2017	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Financial assets:				
Available for sale financial assets:				
— unlisted investments	-	-	12,414	12,414
	-	-	12,414	12,414
2016				
Financial assets:				
Available for sale financial assets:				
— unlisted investments	-	-	12,414	12,414
	-	-	12,414	12,414

(d) **Sensitivity Analysis**

Interest Rate Risk

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

Interest Rate Sensitivity Analysis

At 30 June 2017, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated Group	
	2017 $	**2016 $**
Change in profit		
— Increase in interest rate by 1%	117,735	113,284
— Decrease in interest rate by 1%	(117,735)	(113,284)
Change in Equity		
— Increase in interest rate by 1%	117,735	113,284
— Decrease in interest rate by 1%	(117,735)	(113,284)

NOTE 28: FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) **Liquidity Risk**

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

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

Trade and sundry payables are expected to be paid as followed:

	Consolidated Group	
Contractual Cash flows	**2017**	**2016**
	$	**$**
Less than 3 months	6,044,754	2,691,965
3 months to 12 months	2,785,468	3,423,035
1 to 5 years	5,304,534	33,169
	14,134,756	6,148,169

NOTE 29: SHARE BASED PAYMENTS

(a) Types of share based payment plans

Employee share option plan

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

Management Incentive Equity Plan

Following shareholder approval, shares were issued at market value to the Managing Director and were funded by a limited recourse loan. The share issue is not recognized as issued capital and is treated as a share option issue in accordance with accounting standards. The plan is designed to align participants' interests with those of shareholders by increasing value of the Company's shares.

Consultant share options

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

Consultant & financier shares

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

No shares or options were issued during the financial year ended 30 June 2017 in relation to the above share based payment plans.

Total options outstanding and exercisable are as follows:

	Consolidated Group	
	Number of options	**Weighted Average Exercise Price $**
Outstanding options at 1 July 2016	120,950,000	0.0658
Exercised	(11,836,986)	0.0626
Expired	(5,350,000)	0.0623
Outstanding at 30 June 2017	103,763,014	0.0663
Exercisable at 30 June 2017	90,463,014	0.0681

No options were granted during the year ended 30 June 2017.

The options outstanding at 30 June 2017 had a weighted average exercise price of $0.0663 and a weighted average remaining contractual life of 0.74 years. Exercise prices range from $0.054 to $0.073 in respect to options outstanding at 30 June 2017.

NOTE 30: PARENT INFORMATION

	2017 $	2016 $
The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.		
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	18,928,666	8,948,373
Non-current assets	112,635,483	94,968,363
TOTAL ASSETS	131,564,149	103,916,736
LIABILITIES		
Current liabilities	12,999,638	10,709,615
Non-current liabilities	5,519,694	3,663,674
TOTAL LIABILITIES	18,519,332	14,373,289
EQUITY		
Issued capital	185,212,910	154,019,255
Reserves	2,905,885	3,958,178
Accumulated losses	(75,073,978)	(68,433,986)
TOTAL EQUITY	113,044,817	89,543,447
STATEMENT OF COMPREHENSIVE INCOME		
Total loss	(7,909,406)	(5,979,627)
Total comprehensive expense	(7,909,406)	(5,979,627)

Guarantees

The Company has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

Contractual commitments

At 30 June 2017, the Company had not entered into any contractual commitments for the acquisition of property, plant and equipment (2016: Nil).

NOTE 31. INTERESTS IN ASSOCIATE

Interests in associates are accounted for using the equity method of accounting. Information relating to associates that are material to the consolidated entity are set out below:

		Ownership interest	
	Principal place of business /	**2017**	**2016**
Name	**Country of incorporation**	**%**	**%**
Energy Made Clean Group*	Australia	100.00%	35.00%
EMC Kimberley Pty Ltd **	Australia	50.00%	17.50%

* On 19 April 2016, the Company acquired a 35% stake in the Energy Made Clean Group, a West Australian based solar, battery and microgrid developer for a payment of $4,676,027 of shares and cash. The purchase was made, under accounting standards in the accounts for the year ended 30 June 2016, with the investment treated as an associate and accounted for using the equity accounting method under which no goodwill or intellectual property was recognised. During the reporting year, the investment continued to be accounted for under the equity accounting method until 1 December 2016. On 2 December 2016, the Company acquired the remaining 65% interest in the Energy Made Clean Group (refer to note 32) and thereafter was consolidated (refer to note 12).

** At 30 June 2016 the Company held a 35% interest in the Energy Made Clean Group, who on held a 50% interest in EMC Kimberley Pty Ltd. The Company therefore indirectly held a 17.5% in EMC Kimberley Pty Ltd. On the Company acquiring the remaining 65% of the Energy Made Clean Group on 2 December 2016 its interest in EMC Kimberley Pty Ltd increased to 50%. As EMC Kimberley Pty Ltd is a joint venture arrangement with its other 50% shareholder, the Group's interest in EMC Kimberley Pty Ltd is recognised as an interest in an associate utilising the equity method.

a) Energy Made Clean Group

	01.12.2016	**30.06.2016**
	$	**$**
Summarised statement of financial position:		
Current assets	7,977,402	7,969,874
Non-current assets	1,097,362	1,061,098
Total assets	9,074,764	9,030,972
Current liabilities	6,628,817	4,901,016
Non-current liabilities	144,523	174,301
Total liabilities	6,773,340	5,075,317
Net assets	2,301,424	3,955,655

Summarised statement of profit or loss and other comprehensive income:

	1 July to 1 December 2016	**30.06.2016**
	$	**$**
Revenue	7,070,350	16,588,016
Expenses	(8,724,581)	(16,921,078)
Loss before income tax	(1,654,231)	(333,062)
Income tax expense	-	988,606
(Loss)/Profit after income tax	(1,654,231)	655,544
Total comprehensive (loss)/income	(1,654,231)	655,544

NOTE 31. INTERESTS IN ASSOCIATE (CONTINUED)

a) Energy Made Clean Group (continued)

Reconciliation of the consolidated entity's carrying amount

	2017 $	2016 $
Opening carrying amount	5,047,919	4,676,027
Professional fees related to investment in Energy Made Clean	19,196	-
Share of (loss)/profit after income tax	(578,981)	371,892
Reversal of carrying amount of interest in Energy Made Clean upon cessation of equity accounting	(4,488,134)	-
Closing carrying amount	-	5,047,919

Adjustment to fair value of interest in the Energy Made Clean on acquisition of the remaining 65% interest in Energy Made Clean

	2017	2016
35% share of identifiable net assets at fair value (refer to Note 32)	2,852,033	-
Carrying amount of equity accounted investment in Energy Made Clean prior to 100% acquisition	(4,488,134)	-
Loss recognised on fair value re-measurement of the 35% interest in Energy Made Clean	(1,636,101)	-

b) EMC Kimberley

	30.06.2017 $
Summarised statement of financial position	
Current assets	720,869
Total assets	720,869
Current liabilities	20,897
Total liabilities	20,897
Net assets	699,972
Summarised statement of profit or loss and other comprehensive income	
Revenue	-
Expenses	(49,458)
Loss before income tax	(49,458)
Income tax benefit	14,837
Loss after income tax	(34,621)
Total comprehensive loss	(34,621)

NOTE 31. INTERESTS IN ASSOCIATE (CONTINUED)

b) EMC Kimberley (continued)

Reconciliation of the consolidated entity's carrying amount

	30.06.2017 **$**
Opening carrying amount	-
Interest acquired on purchase of Energy Made Clean	100
Share of loss after income tax - limited to value of investment	(100)
Closing carrying amount	-

NOTE 32: BUSINESS ACQUISITION

On 2 December 2016, the Company acquired the remaining 65% of the Energy Made Clean Group (refer to Note 31) for consideration of $14,164,727 consisting of shares, cash and contingent cash. Accordingly, under accounting standards at 2 December 2016, the equity accounting method was discontinued and the Energy Made Clean Group ("EMC") was fully consolidated into the Company accounts. At 31 December 2016, the Group had not completed the initial accounting for the business combination and therefore disclosed provisional amounts in its 31 December 2016 interim financial report. At 30 June 2017, the acquisition accounting of EMC had been finalised.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Energy Made Clean as at the date of acquisition were as follows:

	Fair Value **$**
Cash and cash equivalents	1,751,678
Current trade and other receivables	3,779,271
Inventories	2,165,464
Other current assets	280,989
Property, plant and equipment (refer to Note 14(a))	893,514
Intangible – microgrid/battery technology development assets (refer to Note 15(b))	5,847,244
Other non-current assets	203,848
Interest bearing liabilities	(507,477)
Trade and other payables	(5,838,869)
Short-term provisions (refer to Note 18)	(282,471)
Non-current trade and other payables	(144,523)
Total identifiable net assets at fair value	8,148,668
Fair value re-measurement of interest in Energy Made Clean prior to 100% acquisition (refer to Note 31)	(2,852,033)
Goodwill (refer to Note 15(c))	8,868,092
Purchase consideration	14,164,727

Representing:

Cash paid to vendor	1,600,000
Fair value of shares issued (refer to Note 20)	11,885,714
Fair value of contingent cash (refer to Note 17)	679,012
	14,164,726

NOTE 32: BUSINESS ACQUISITION (CONTINUED)

	$
Cash used to acquire business, net of cash acquired:	
Cash paid to vendor	1,600,000
Less: cash and cash equivalents acquired	(1,751,678)
Less: other non-current assets (deposits) acquired	(112,635)
Net cash inflow	(264,313)

The amount of revenue and profit or loss of EMC (the acquiree), excluding inter-company transactions, since acquisition date up to 30 June 2017 included in the Consolidated Statement of Comprehensive Income was:

- Revenue $4,136,056
- Loss $5,937,105

Had the acquisition occurred on 1 July 2016 the full year contribution to revenues and the consolidated loss after tax would have been:

- Consolidated revenue $8,515,059
- Consolidated loss $18,028,457

NOTE 33: INVENTORY

	2017 $
Balance as of 1 July 2016	-
Add: Inventory acquired as part of business acquisition (refer to Note 32)	2,165,464
Add: Purchases during period	5,204,678
Less: Cost of goods sold	(5,980,924)
Balance as of 30 June 2017	1,389,218
Inventory may be broken down as follows:	
Raw materials	464,660
Goods in transit	111,365
Work in progress	813,193
Total inventory at the lower of cost and net realisable value	1,389,218

NOTE 34: COMPANY DETAILS

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

Carnegie Clean Energy Limited
21 Barker Street
BELMONT WA 6104

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 14 to 60, are in accordance with the *Corporations Act 2001* and:

    a. comply with Accounting Standards and the *Corporations Regulations 2001*;

    b. give a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the Consolidated Group;

2. the financial statements comply with International Financial Reporting Standards as set out in Note 1;

3. the remuneration disclosures that are contained in the Remuneration Report in the Directors Report comply with the *Corporations Act 2001* and the *Corporations Regulations 2001*; and

4. the Managing Director and Chief Finance Officer have each declared that:

    a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

    b. the financial statements and notes for the financial year comply with the Accounting Standards; and

    c. the financial statements and notes for the financial year give a true and fair view;

5. In the Director's opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Dr Michael E Ottaviano
Managing Director

Grant J Mooney
Director

Dated this 22 day of September 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARNEGIE CLEAN ENERGY LTD

Report on the audit of the Financial Report

Opinion

We have audited the financial report of Carnegie Clean Energy Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Director's Declaration.

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

(a) giving a true and fair value of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of this report. We are independent of the Group in accordance with the independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Key audit matter and why	How our audit addressed the matter
EMC Acquisition Accounting	
During the year, the Group increased its ownership interest in the project engineering business Energy Made Clean (EMC) from 35% to 100%, resulting in a change in accounting method, from equity accounting to consolidation. The acquisition of the remaining 65% interest occurred on 2 December 2016. The initial accounting for the acquisition was incomplete at 31 December 2016, resulting in the Company recognising and disclosing the assets acquired, liabilities assumed and resulting goodwill on a provisional basis, as permitted by AASB 3 – *Business Combinations*. The Group subsequently engaged a valuation expert to independently value the purchase consideration and the identifiable assets and liabilities of EMC, for the purposes of finalising the acquisition accounting. We focused on this area due to: ▪ The complexity involved to determine the gain or loss to be recognised on the discontinuation of equity accounting of the ownership interest in EMC, and its subsequent consolidation from 2 December 2016; ▪ The acquisition accounting involving the estimation of the fair value of the purchase consideration (including the contingent consideration components), assets and liabilities and the identification and valuation of certain identifiable intangible assets and goodwill; and ▪ Significant judgement involved in relation to the assumptions used in the valuation and purchase price allocation process.	Our procedures included: ▪ Ensuring the change in accounting basis, from the equity method to consolidation accounting, was correctly measured and recognised in accordance with Australian Accounting Standards; ▪ Inspecting the key terms in the Share Purchase Agreement; ▪ Reading the independent valuation report prepared by Management's Expert; ▪ Challenging the critical assumptions used by Management's Expert in relation to the identification and recognition of assets and liabilities and the associated fair values, by involving our technical accounting and valuation specialists to question Management's Expert and conclude on the reasonableness of the key assumptions used in determining the fair values and purchase price allocation, adopted by the Group; ▪ Assessing the accounting entries used to record the acquisition, the assets and liabilities of EMC at the acquisition date; ▪ Assessing the fair value adjustments made to the provisional amounts, to reflect the completion of the acquisition accounting process; and ▪ Assessing the skills, competence and objectivity of Management's Expert. We also considered the appropriateness of the information communicated in the disclosures included in Notes 1,15,17, 31 and 32.

Key audit matter and why	How our audit addressed the matter
Valuation of Goodwill and Other Intangible Assets	
The impairment of goodwill and other intangible assets is a key audit matter as: ▪ goodwill and other intangible assets represented 76% of the Group's total assets at 30 June 2017; ▪ the 100% acquisition of EMC during December 2016 required the Group to reassess the determination of cash generating units (CGU's); ▪ a significant level of judgement is applied when considering Management's assessment of impairment of goodwill and other intangible assets (with both finite lives and indefinite useful lives), especially in relation to forecast cashflows, discount rates applied, assumptions underlying forecast growth and terminal growth rate assumptions; ▪ the sectors in which the Group operates experiences competitive market forces which can increase the uncertainty of forecast cashflows used in valuation models; and ▪ a significant level of judgement is required in assessing the extent to which other intangible assets with finite useful lives (computer software, technology and intellectual property) will generate sufficient economic benefits to support the carrying value of these capitalised costs, as estimated by Management.	Our procedures included: ▪ assessing Management's determination of the Group's CGU's based on our understanding of the nature of the Group's business and the changes to that business as a result of the acquisition of EMC. We also analysed the internal reporting of the Group to assess how operating performance is monitored by, and reported to, the Group's chief operating decision makers; ▪ using the assistance of our technical accounting and valuation specialists to challenge the valuation methodologies employed by Management's Experts, including key assumptions and estimates used to determine the recoverable value, including those relating to discount rates, growth assumptions and terminal growth rates. This included comparing the Group's inputs to externally sourced data, as well as information obtained by us during the course of our audit procedures; ▪ interrogating the sensitivity analysis prepared by Management's Expert in relation to the discount rates, growth rates and terminal growth rates, as a means of further challenging Management's assumptions; ▪ assessing and challenging Management's evaluation of the estimated useful lives of computer software, technology and intellectual property, as well as their evaluation of indicators that such assets maybe impaired. In assessing this, we compared the assumptions underlying the estimated future benefits to our understanding of the business and relevant economic and industry factors; ▪ evaluating the recognition criteria applied to the costs incurred and capitalised during the financial year against the requirements of the accounting standards; and

Key audit matter and why	How our audit addressed the matter
	▪ comparing the recoverable amount of each impairment assessment to the total carrying value of the assets included in each of the CGU's, including questioning whether it was appropriate to include or exclude assets in the CGU and evaluating the resultant headroom for reasonableness based on our understanding of the Group's operations and the market forces that impact it. We also considered the appropriateness of the information communicated in the disclosures included in Notes 1 and 15.
Recognition of revenue	
Following the acquisition of EMC, the majority of the Group's revenue now relates to revenue generated from contracting activities. Revenue is measured based on either the stage of completion of contracts or on the satisfaction of contract milestones. In cases when revenue is based on the stage of completion, this is calculated on the proportion of total costs incurred at the reporting date compared to Management's estimation of total costs of the contract. We focused on these types of contract. We focused on these types of contracts due to the high level of management estimation involved, in particular relating to: ▪ forecasting total cost to complete at initiation of the contract; and ▪ the recognition of variations and claims, based on assessment by the Group as to whether it is probable that the amount will be approved by the customer and therefore recovered.	Our procedures included: ▪ documenting our understanding of Management's processes and controls regarding accounting for the Group's contract revenues; ▪ testing the design, implementation and operating effectiveness of the Group's controls over contract revenues including: – contract authorisation; – management's review and assessment of significant changes in work in progress balances; – in cases where revenue is based on the stage of completion of contracts, ensuring that invoices are raised only after the appropriate Management review and approval and customer confirmation; and – in cases where revenue is based on the satisfaction of contract milestones, ensuring that invoices are raised upon reaching the contract milestones or upon receipt of confirmation from the customer that the contract milestones have been achieved. ▪ We obtained Management's listing of projects started and completed during the year as well as those that were incomplete at30 June 2017 and

Key audit matter and why	How our audit addressed the matter
	used data analytic routines to select a sample of contracts for testing. Our procedures included: – Checking the mathematical accuracy of the reconciliation and recalculating; ▪ Cumulative revenue recognised to date; ▪ Estimated attributable profit margin for the contract; ▪ Cumulative progress billings to date; ▪ Amounts due to/from Customers; and ▪ Cumulative attributable profits. – Agreeing the stage of completion or the attainment of contract milestones, to correspondence from customers and certifications from the respective project managers; – Ensuring the total project revenue for the year for all contracts agreed to the amounts recognised and disclosed in the financial statements; – Ensuring that the Amounts Due to/from Customers at year end, have been appropriately recognised and disclosed in the financial statements; and – For contracts where it is probable that total contract costs will exceed total contract revenue, ensure that the expected loss is recognised immediately, in accordance with AASB 111 – *Construction Contracts*. We also considered the appropriateness of the information communicated in the disclosures included in Notes 1,2,10 and 17.

Other Information

The directors are responsible for the other information. The other information comprises the directors' report and securities information included in the annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Directors' Responsibilities

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibility for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group financial report. We are responsible for the direction, supervision and performance of the Group audit and remain solely responsible for the audit opinion.

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 12 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Carnegie Clean Energy Ltd for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Crowe Horwath™

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Crowe Horwath Perth

CROWE HORWATH PERTH

CYRUS PATELL
Partner

Signed at Perth, 22 September 2017