

# 2012 ANNUAL REPORT



**Wasabi Energy** aims to become a **profitable** power producer. Our power business is built on harvesting **waste heat** from industrial processes and **renewable heat** and **transforming** it into **electricity**, based around our proprietary technology, the Kalina Cycle®. These power solutions address global sustainability challenges through the production of emission free electricity.

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# Highlights *of the year*

- Placing with UK institutional investors raising AUD\$5.1m (£3.3m) and non-renounceable rights issue raising AUD\$3.8m (£2.5m)
- Continued to achieve milestones with dual deployment strategy for power business:
  - Establishing Kalina Cycle® plants in Turkey, South Africa and Iceland for build own operate independent power production, including revised feasibility study on track with ArcelorMittal South Africa
  - Acceleration of Kalina Cycle® deployment worldwide with licensee partners, including a second contract for a Kalina Cycle® power plant secured with FLSmidth for the cement industry
- Ongoing enhancement of Kalina Cycle® intellectual property and extension of broad patent portfolio
- Increased ownership of Aqua Guardian Group to 79.2% with market penetration gathering pace

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Geothermie Unterhaching 3.4MWe Kalina Cycle® geothermal power plant, Unterhaching Germany

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## Chairman's Letter

Wasabi Energy has made good progress in the year towards its goal to become a profitable power producer.

We will continue to pursue opportunities in line with this strategy and over the next twelve months we plan to divest of all non-core interests other than those directly related to power production or Kalina Cycle® technology.

The management has set a target to commission a minimum of 25 MWe of our own power production by 2015 and maintain growth at the rate of 25 MWe per annum thereafter. This means that we have to initiate construction on 25 MWe of Build Own Operate power plants by December 2013. During the past financial year we have made a solid start on achieving this target and are moving to construct plants in Turkey, South Africa and Iceland. In addition we are actively investigating more than a dozen opportunities in power production and have a strong pipeline in place.

On 2 July 2012, we finalised the placement of 300 million shares in Wasabi Energy to institutional investors at AUD\$0.017 to raise AUD\$5.1m (GBP£3.3m). We were very pleased with the strong UK institutional support and their confidence in our business model.

In addition to the placing, we closed a non-renounceable rights issue in mid August 2012 which raised AUD\$3.8m (GBP£2.5m). As announced on 13 August 2012, there was a shortfall of 51 million shares that can be placed by the Directors over the three months to November 2012. Funds from the placement and rights issue will be used to purchase the Option on the Tuzla Geothermal Power Project and for investment in our main projects and for working capital in the Company.

The Company has made great progress in executing its stated strategy with some key activities highlighted below.

The conclusion of the purchase of the Option for 50% of the Tuzla Geothermal Power Project provides an exciting platform for Imparator Enerji, our business in Turkey. The Tuzla region is a known geothermal field and consists of an operating power station as well as an initial build out of up to 17.5 MWe and a potential within the field based on historical studies, of 80 MWe.

South African and Sub Saharan Africa continue to present significant power production opportunities for the Group and this region remains a key area of focus for us. We expanded our operations in Africa increasing our share of AAP Carbon, a carbon asset and engineering firm from 25% to 62.5%. AAP Carbon is well positioned within the Sub Saharan African market with a unique offering of chemical and thermal energy conversion to electricity. AAP Carbon has a number of well progressed power plants which complement Wasabi Energy business development

activities in Africa including the two Kalina Cycle® power plants at ArcelorMittal's Vanderbijlpark steel works.

We continue to deliver our existing Kalina Cycle® power plants with the team actively finalising a number of projects. The engineering team has grown in the past year and we are very pleased with the development of our people. The power business has continued to deliver on its targets and, combined with a strong pipeline of future projects we are firmly on track to reach financial profitability in the coming years.

Wasabi Energy continues to divest its non-core holdings and we announced in mid August that we had sold 275 million shares in Australian Renewable Fuels to Lignol Energy Company, a Canadian based biorefining group, for CAD\$4.27m. We now hold approximately 21 million shares in Australian Renewable Fuels which has continued to produce positive cash flows from its operations. The biodiesel market in Australia remains strong and we are seeing increased demand as a result of a B20 blend which is now available to the mining industry with a positive AUD\$0.06 per litre rebate.

Aqua Guardian Group is accelerating its market penetration with approximately 3.4 hectares of its water conservation modules, AquaArmour™, deployed across six sites in Australia. The product continues to gain positive endorsement from the water and mining industry. In addition to the Australian business we are fast tracking our international business development in the Americas, South Africa, Spain and Asia. Aqua Guardian Group has a number of exciting prospects that are nearing conversion both in Australia and the Americas. Aqua Guardian Group also own approximately 22% of Clean TeQ (ASX: CLQ), an environmental solution provider in water, air quality and mineral recovery. The business has performed well this year and secured a significant joint venture with Nippon Gas for water treatment in the coal seam gas industry.

During the year we sold our remaining holding in Rum Jungle shares for a profit AUD\$696,000 and plan to divest our remaining non-core investments in the new financial year.

The Group made a loss for the year to 30 June 2012 of \$7.45m (2011 - Loss \$0.55m). This loss comprised \$0.66m gross profit predominantly from GGL, our power technology division, as well as profits on the sale of non-core assets of \$0.57m. This was

offset by a non-cash loss on investments of \$3.76m. The loss also included the costs of supporting the development of AGG and corporate development globally. At 2 July 2012, including receipt of the placing funds on 2 July 2012, the Group had a cash balance of \$4.77m.

Wasabi Energy is well positioned to deliver on our objective of being a profitable power producer based on our proprietary Kalina Cycle® technology and we are working across a carefully analysed range of industries and geographies to deliver our strategy.

The growth in Wasabi Energy would not have been achieved without the dedication of our team whom have worked tirelessly to achieve our targets. I would like to thank them for their efforts and also for the time that they spent away from family and friends to deliver our global business. My thanks also to my fellow

Directors who have continued their diligence on our business activities and who have provided strong direction for the Group.

Thank you also to our shareholders who have demonstrated their support through our capital raising activities. We are grateful for your support and confidence in our business.

Your Faithfully



**John Byrne**  
Executive Chairman

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#### AquaArmour™ deployment at GWM Water's Ouyen Reservoir, Australia

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## Review of Operations

Wasabi Energy's power business continued to meet its strategic objectives and milestones during the financial year. In May 2012 Wasabi Energy announced that it had completed the purchase of 100% of Global Geothermal Limited (GGL) which holds the intellectual property and engineering capability, through the wholly owned subsidiary Recurrent Engineering LLC, for the Kalina Cycle® power technology. The Kalina Cycle® power technology converts heat, in both liquid and gaseous form, into continuous electric power production with increased efficiency over competing technologies.

The overall strategy for the Kalina Cycle® power technology remains unchanged. There are two key aspects to the strategy: 1) develop, build, own and operate plants as an independent power producer and, 2) continue to add key international licensees to accelerate the use and deployment of the technology worldwide.

We are focused on two primary market areas: the capture of industrial waste heat and gases for power generation, and renewable energy generation through heat extraction from renewable sources such as geothermal and solar thermal.

### Imparator Enerji

In September 2011, Wasabi Energy announced that it has established a subsidiary in the Republic of Turkey, Imparator Enerji to pursue Kalina Cycle® project development opportunities as an independent power producer in Turkey.

On 13 August 2012, Wasabi Energy, through Imparator Enerji, completed the purchase of an Option to acquire a 50% interest in the Tuzla Geothermal Power Project, an advanced geothermal project in Turkey, for a total consideration of US\$11.75m (inclusive of approximately US\$3.6m for the exercise of the Option). The Option is exercisable until 31 December 2013. Subject to the exercise of the Option, Wasabi Energy plans to develop the Tuzla Project by way of a joint venture with the current project operator, Egenda Ege Enerji Uretim A.S. (Egenda), a subsidiary of Enda Enerji Holdings, an independent power producer based in Izmir, Turkey.

The Kalina Cycle® power technology converts heat, in both liquid and gaseous form, into continuous electric power production with increased efficiency over competing technologies.



Internal view of Geothermie Unterhaching 3.4 MWe Kalina Cycle® geothermal power plant



Tuzla Geothermal Power Project 7.5 MWe geothermal power plant

The Tuzla Geothermal Power Project covers an area of approximately 11km<sup>2</sup> of a very shallow and relatively high temperature geothermal zone in North Western Turkey. The project hosts an operating 7.5 MWe geothermal power plant that was commissioned in early 2010. Due to a combination of design, operational and current brine/steam production constraints the plant is currently operating at approximately three quarters of its nameplate capacity.

Imparator Enerji is working closely with Egenda on a production license expansion initiative, which may result in an increase in the footprint of tenure over the Greater Tuzla geothermal resource.

Imparator Enerji is also collaborating with the Project's technical team to develop a work program of potential modifications to the existing power plant, which subject to joint venture approval, may be implemented to achieve maximum electricity generation. Concurrently with the power plant optimisation activities, Imparator Enerji has commenced the development of a pre-feasibility study for a proposed 14-17.5 MWe first-stage build-out at the Project, which also, subject to joint venture approval, may utilise Wasabi Energy's proprietary Kalina Cycle® technology.

The Tuzla geothermal field has been extensively studied since the 1960's through a range of geological, geochemical and geophysical techniques including the drilling of several deep wells into the target reservoir which have collectively confirmed the Tuzla Project as a major regional geothermal resource. Resource estimates as recently as 2008 by the MTA, the Mineral Research & Exploration General Directorate, which discovered the resource, indicate power generation potential within the field of up to 80 MWe.

Turkey remains an attractive market that is supported by a basic geothermal feed-in tariff of US\$0.105 per kilowatt hour which can be increased to a maximum of US\$0.132 per kilowatt hour provided certain key pieces of equipment are purchased in Turkey. Imparator continues to be focused on delivering the Tuzla Project and are also developing a number of other opportunities for the Kalina Cycle® in the industrial sector utilising waste heat as the carbon free source for power generation.

### Sub Saharan Africa

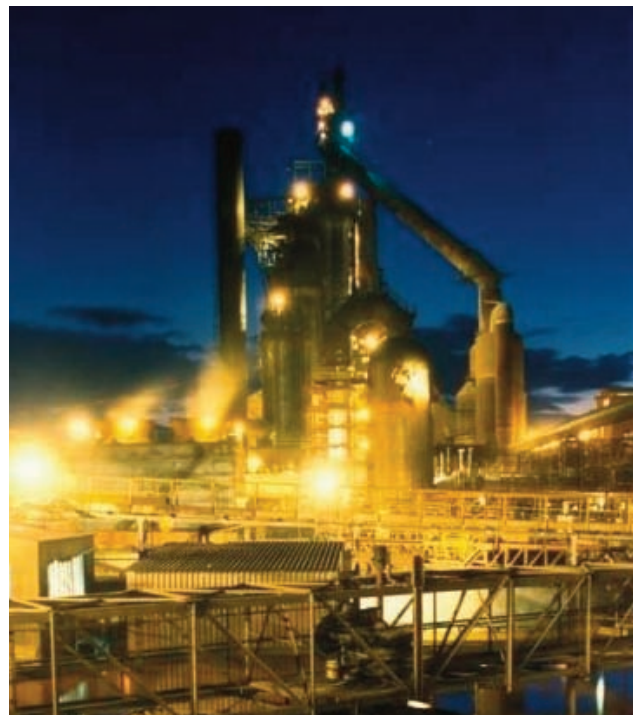
Wasabi Energy has been developing projects in Sub Saharan Africa, with a specific focus on South Africa. In November 2011, Wasabi Energy announced that a term sheet had been signed with ArcelorMittal South Africa for a feasibility study for the installation of Kalina Cycle® power plants at its Vanderbijlpark Steel Works. The feasibility study for an initial 6 MWe and potential 24 MWe Kalina Cycle® power plants was completed on time however at the same time ArcelorMittal revised its plant configuration resulting in a change in the available heat. A revised feasibility study is currently underway and we are expecting to reach agreement on a Kalina Cycle® power plant

configuration as well as a power purchase agreement during the second half of this year.

In March 2012, Wasabi Energy announced that it had taken a 25% interest in AAP Carbon Holdings Limited (AAP Carbon). AAP Carbon is based in South Africa and engineers, builds, accredits and invests in clean energy projects that generate carbon credits under the Clean Development Mechanism (CDM) of the Kyoto Protocol. AAP Carbon's initial focus has been on the power intensive ferrochrome industry, building cogeneration power plants that harvest the off-gases from the furnaces and convert them into electricity by using gaseous fuelled reciprocating engine generators.

AAP Carbon have a significant pipeline of projects that build from their flagship 20 MWe power plant at International Ferro Metals, which was the first ferroalloy cogeneration plant to harness the carbon monoxide rich waste gases. The project pipeline includes a feasibility study nearing completion for a 28 MWe chemical energy conversion plant for Hernic Ferrochrome (a Mitsubishi Corporation company) and well advanced discussions with Mogale Alloys (a Ruukki company) and TATA Steel (a TATA Group company) amongst others.

Each of these potential plants creates an opportunity to add a Kalina Cycle® power plant to generate 10-20% more power by utilising the exhaust gases from the reciprocating engine generators.



ArcelorMittal South Africa Vanderbijlpark Steel Works

## Review of Operations *continued*

The International Ferro Metals cogeneration power project is close to being registered for Certified Emission Reduction credits (CERs) under the UNFCCC Clean Development Mechanism Framework. AAP Carbon will hold 25% of the project's CERs and manage the project on behalf of International Ferro Metals for a 10 year period. These CERs are expected to provide an annual revenue stream alongside other management fees earned by AAP Carbon.

On 16 August 2012 Wasabi Energy announced that it will increase its interest in AAP Carbon from 25% to 62.5% forming a company that will be able to offer a powerful combination of chemical and thermal energy conversion to electricity for Sub Saharan Africa.

Under the terms of the transaction, AAP Carbon will issue 15.2 million new shares and 4.7 million warrants exercisable at AUD\$0.10 to Wasabi as consideration for an exclusive Kalina Cycle® license (excluding the cement and lime industry which has been granted to FLSmidth) and Wasabi's business development activities in Sub Saharan Africa which include the engineering study for two Kalina Cycle® power plants at ArcelorMittal's Vanderbijlpark steel works and several other projects in South Africa and Kenya.

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Husavik 2.0 MWe Kalina Cycle® geothermal power plant, Iceland

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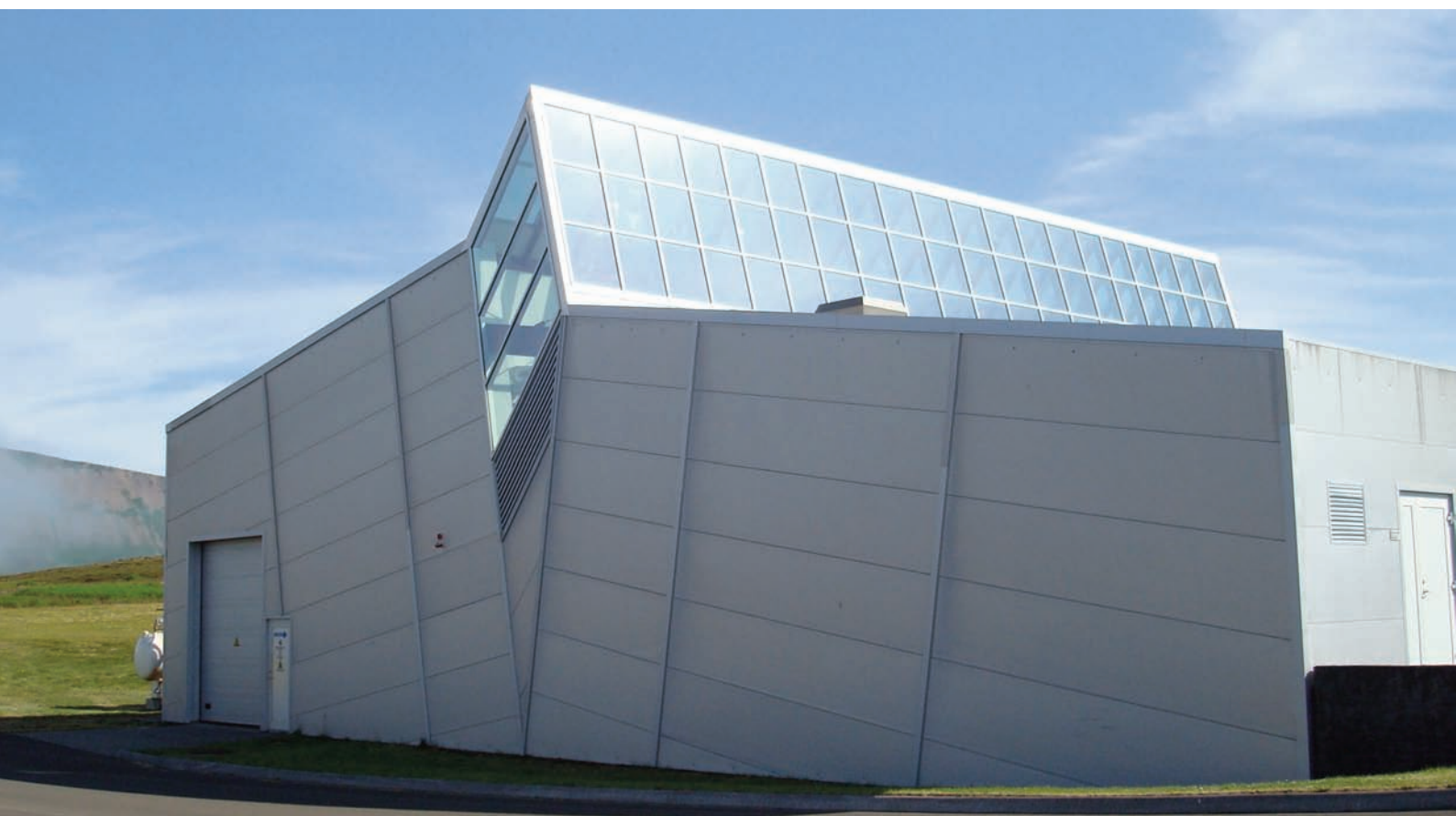
The Sub Saharan African market offers abundant opportunities for the development of AAP Carbon with its portfolio of chemical and thermal energy conversion for both the industrial waste heat and renewable heat sectors.

### Japan

On 18 June 2012 the Japanese Government announced renewable feed-in tariffs available from 1 July 2012. The rates for geothermal power were confirmed at 27.30 yen or US\$0.339 per kilowatt hour for plants with a capacity of 15 MW or more and 42 yen or US\$0.5218 per kilowatt hour for smaller plants on a 15 year term. Other renewable technologies eligible for specified feed-in tariffs with in Japan include solar, wind, biomass and small hydro.

GERD (Geothermal Energy Research and Development) has two 50 kWe Kalina Cycle® geothermal power plants that are specifically developed for the Japanese hot spring market and other low enthalpy geothermal markets. The first EcoGen Kalina Cycle® power unit was installed in December 2011 and is undergoing testing at the Matsunoyama Onsen (hot spring) north west of Tokyo. The second EcoGen unit is in the United States awaiting the outcome of the testing so that modifications can be made to the plant.

Japan has led the world with the implementation of the Kalina Cycle® technology with five Kalina Cycle® power plants. The Kalina Cycle® uses low temperature heat to create power and at these





lower temperatures is up to 50% more efficient than similar technologies.

In 1998, the Japanese constructed a demonstration Kalina Cycle® power plant that produced 4.5 MWe on a municipal incinerator at Fukuoka which achieved 20% greater efficiency than other similar plants. Since 1999 Sumitomo Metals have been operating a 3.5 MWe Kalina Cycle® power plant utilising the waste heat from their steelmaking process. Fuji Oil also completed a 4.0 MWe Kalina Cycle® power plant in 2006 using two waste heat sources from their oil refinery in Chiba. It is estimated that the Kalina Cycle® power plants at Sumitomo Metals and Fuji Oil, to date have a combined contribution of over 60 gigawatt hours of low emission electricity.

Wasabi Energy is concentrating substantial business development activities on the Japanese market. As previously indicated there is an abundance of hot springs in Japan with over 27,866 separate occurrences. The enhanced thermodynamics of the Kalina Cycle® combined with the cascaded utilisation of hot-spring water as proposed by GERD represents approximately 718 MW of power generation potential from the existing hot springs.

## Iceland

In January 2011 Wasabi Energy announced that it had purchased the Husavik Kalina Cycle® geothermal power plant. The refurbishment of the power plant has commenced and is expected to be completed in mid 2013. The delay in completion is due to undertaking further optimisation of the turbine generator with the turbine manufacturer General Electric. The purchase agreement with City of Husavik and the power purchase agreement have been extended to coincide with the new completion date.

## License Activity

In June 2011, Wasabi Energy announced a license agreement with FLSmidth, a leading global supplier of engineering, procurement and construction (EPC) services to the global cement and minerals industries. Under the license agreement GGL receives an upfront fee for training and technology transfer and a royalty payment for each megawatt of installed Kalina Cycle® power plant capacity. During the second half of 2011, we trained approximately 30 engineers from FLSmidth in the technology and design of Kalina Cycle® power plants as well as reviewed a number of project opportunities together.

Under the FLSmidth license agreement, Wasabi Energy announced in June 2012 a new 4.75 MWe Kalina Cycle® power plant at Star Cement's plant at Ras Al Khaimah, in the United Arab Emirates. Star Cement Co. LLC was acquired in 2010 by UltraTech Cement which is part of the US\$35 billion Indian based globally diversified corporation, Aditya Birla Group. This will be the second Kalina Cycle® power plant for the cement industry.

We also continue our work on the first Kalina Cycle® power plant for the cement industry with FLSmidth. The 8.6 MWe Kalina Cycle® power plant is in the final stages of the construction and commissioning at DG Khan's cement plant in Khairpur, Pakistan and is due for completion in late 2012.

FLSmidth are continuing its strong development of the Kalina Cycle® within the cement and lime industries with the establishment of a global Energy Efficiency team who have a number of projects that are well advanced.

Our Chinese licensee, Shanghai Shenghe New Energy Resources and Technology (SSNE) have also continued to develop the Kalina Cycle® within the Chinese market. Recently it was announced that SSNE had signed a Design and Technical Services Agreement with China Petroleum & Chemical Corporation (Sinopec), China's leading petrochemical producer, for the design of a 4.0 MWe Kalina Cycle® power plant at its Hainan petrochemical plant. If the plant proceeds to construction, this will be the first Kalina Cycle® power plant in the petrochemical industry in China and follows from the successful operation of a 4.0 MWe Kalina Cycle® power plant since 2006 at Fuji Oil's refinery in Chiba, Japan.

Sinopec operates 45 major petrochemical facilities in China that could utilise Kalina Cycle® power plants for waste heat recovery and improved energy efficiency and environmental impact.

SSNE are continuing discussions with Taiwan's Bureau of Energy following its successful trial of the Kalina Cycle® in 2011, at a geothermal field in the Qingshui region of Yilan County, Taiwan. Additionally there are a number of prospects that SSNE are working on across a number of industries including petrochemical, cement and power companies.

SSNE have also continued to use its state of the art testing and laboratory facility which includes 1:1 scale heat exchangers and turbine assembly and full factory testing capability for Kalina Cycle® power system. SSNE utilised this facility to complete its component of the second EcoGen Kalina Cycle® power plant for small scale hot springs in Japan which commenced in December 2011.

Exorka, the Kalina Cycle® licensee in Germany, is continuing the development of the Geothermie Taufkirchen geothermal power plant. As updated in May 2012, the initial production well has been completed and drilling is still underway for the injection well. These wells are at depths of in excess of 3,500 metres. Geothermie Taufkirchen includes Exorka's parent company, Geysir and the Swiss utility, AXPO as shareholders.

Wasabi Energy is in ongoing discussions with Geothermie Taufkirchen on the optimal design of the Kalina Cycle® power section of the plant and the scope and role for Wasabi Energy as the project moves forward. As indicated previously, the emphasis of the resource is for use in district heating which affects annual power generation due to the hot water being diverted to the district heating system.

## Review of Operations *continued*

Over the next year, the Wasabi Energy team will be focused on delivering the existing projects, in particular the successful commissioning of DG Khan's Kalina Cycle® power plant in Khairpur, Pakistan and the delivery of our build, own, operate projects in South Africa, Iceland and Turkey.

Our intellectual property is being continually enhanced and we are maintaining our broad patent portfolio including the implementation of a new information system to streamline the intellectual property management. The engineering team in Houston is performing strongly on project and license support.

### Aqua Guardian Group

Wasabi Energy announced in December 2011 that it had increased its ownership in Aqua Guardian Group (AGG) from 47.5% to 79.2%. AGG owns the innovative evaporation and algae control product AquaArmour™ which is a self ballasting module designed for large scale deployment on water storages and dams. In addition AGG also owns approximately 22.7% of CleanTeQ (ASX: CLQ), a provider of advanced clean technology solutions for air and water treatment and mineral extraction.

AquaArmour™ has been deployed across six sites in South Australia, Western Australia and Victoria in Australia with a total coverage of 3.4 hectares of water. These deployments include 21,000 modules covering 2 hectares in Ouyen, Victoria, Australia which was the subject of an independent study completed in October 2011 by SA Water and Bio 21.

The study reported that a 94% reduction in evaporation rates was achieved with 85% coverage of the water by the modules. The algal numbers were lower in the covered water storage compared to the uncovered storage. There was no negative impact on dissolved oxygen and some moderation of temperature and a decrease in pH, which were all within good water quality levels. Observations of the biota and water quality by infrastructure operators and independent assessors suggest no negative impact of AquaArmour™ modules, deployed at densities ranging from 65% to 90% coverage. Biological assessment of species richness an indicator of macro aquatic invertebrates appears unchanged from covered and uncovered areas.

Within the provision of water there are three prime objectives are driving the water debate in many countries. They are:

- to conserve existing water resources
- to generate new sources of water, and
- to make water usage more efficient.

AquaArmour™'s main contribution to these objectives is to offer substantial conservation of existing and new water resources at a capital cost well below that required to generate new water supplies from desalination or the re-cycling of treated waste water.

AGG is targeting three major markets for AquaArmour™ – mining, urban water authorities and agriculture. In addition we expect there will be a number of industrial and commercial operations that involve significant water usage and water security. Sectors

such as coal seam gas/gas shale, aqua culture, algae farming, wastewater treatment and power stations utilise water in their process will also be targeted.

Geographically AGG is being deployed in Australia initially with international areas being developed subsequently. The main overseas markets identified are the North America, South America, South Africa, Spain and China. Initial market development has focused on the USA where AGG has appointed a local representative in the US to research and prepare the business plan for commencing operations in the US. This business plan is currently being reviewed.

North America, South Africa and South America are particularly attractive markets for the mining sector. A large number of mining operations are active in these regions where water security for operations is a key requirement for them.

Due to the value of these operations, an opportunity to utilise more water from their existing resources or allocations is a valuable proposition.

AquaArmour™ is gaining increased industry recognition with a number of accolades received to date, including the *Mine Excellence-Technology* award at the 2011 Mines & Money Conference, the *Infrastructure Project Innovation* award at the AWA Victoria Water 2011 awards, and the Resource Management award at the 2012 Water Industry Alliance Smart Water Awards. Each of these awards recognise the suitability of the product to the major global market segments identified for the product.

The manufacturing strategy remains on track with Venture Industries, a global plastics manufacturer. AGG are continuing to look at further product development and manufacturing methods to increase the rate of manufacture of the units and decrease the unit costs. Deployments methods in the field are also being studied to improve the rate and reduce the time for deployment.

AGG are currently in advanced discussions with a number of global mining companies for deployment of AquaArmour™ on their sites as well as urban water authorities. In the US an exciting market has developed within the shale gas industry where large amounts of water are used in the fracking process. We are currently in discussions for a trial deployment in Texas.

### CleanTeQ

CleanTeQ continue to convert contracts and develop its business. In the water business CleanTeQ announced in February 2012 a joint venture with Nippon Gas to provide desalination facilities and services to the Australian coal seam gas industry. A jointly owned company, Associated Water Pty Limited, will use CleanTeQ's innovative Continuous Ionic Filtration (CIF™) technology as the basis for the desalination process within this industry.

The Australian coal seam gas water market has the potential to be one of the largest emerging water treatment market opportunities globally. The rapid expansion in exploration and development of coal seam gas fields has led to an urgent need for new and cost effective water treatment solutions with an

emphasis on the minimisation of the adverse impacts to the environment of the salt-rich water produced as a by-product of coal seam gas operations.

Capital expenditure on water treatment in the Australian coal seam gas market is estimated to be around AUD\$300m to AUD\$500m per annum over the next 6 years. Treatment plant operating costs are similarly estimated to be around AUD\$500m per annum (at peak production) and will continue for the life of the gas fields, that is to about 2030.

CleanTeQ commenced development of its patented CIF™ technology in 2004 with the aim of providing a simple cost effective desalination technology that could operate reliably with water that has a high fouling and scaling potential. CIF™ can be used alone or in conjunction with reverse osmosis and evaporation technology to provide reliable and cost effective desalination of coal seam gas water.

The CIF™ technology is a unique, simple and readily scalable solution for the desalination of coal seam gas water which flows from the drilling process. In a typical desalination operation, the CIF™ system will aim to recover over 90% of the water as clean water which can be used for agriculture, livestock, industry or, alternatively, returned to the environment. This compares to the conventional approaches that typically deliver less than 80% water recovery and involve significantly high cost associated with managing a 20% plus brine by-product stream.

Associated Water's business plan is to directly provide water desalination solutions to coal seam gas companies as well as to provide services and technology to water treatment companies servicing the industry. There is expected to be 20,000 to 30,000 coal seam gas wells that will be developed by the major coal seam gas companies in Queensland and New South Wales over the current forecast life of the fields.

Other applications of technology owned by CleanTeQ in the water industry include treatment of landfill water to remove contaminants such as ammonia and to balance the pH levels of the water. CleanTeQ was awarded an initial contract for AUD\$1.2m in July 2011 which was subsequently increased to AUD\$3.6m in February 2012 to design and install two landfill treatment facilities.

CleanTeQ also operates an air division that mainly provides biological odour control for applications such as sewer gas type installations. These odour control methods can also be applied to volatile organic compounds as can be generated in industrial process. CleanTeQ has announced since June 2011 until 30 April 2012 orders for over \$6m in this division.

In addition to the use of the CIF™ technology in the water industry and its biological odour control in air quality application, CleanTeQ utilises technology for application in the mining industry for extraction and purification of metals from pulp and solutions. This can be applied to minerals such as gold, base metals, rare earths and uranium. This is a potential growth area for CleanTeQ alongside its more established water and air division.

AGG has a strategy of becoming a major water company with diverse products and partnerships to provide solutions to issues around water quality and availability. The holding and ongoing support of Clean TeQ is in line with this strategy.

Wasabi Energy is continuing to examine options for the AGG business including a public listing, merger or trade sale of the business.

## Australian Renewable Fuels

Australian Renewable Fuels (ARFuels, ASX: ARW) is one of Australia's largest producers of biofuels with a total production capacity of 150 million litres of 100% biodiesel. ARFuels operates 3 production plants in Barnawartha, Victoria, Picton, Western Australia and Largs Bay, South Australia. The processing plants all use non-food grade feedstock and meet Australian and international standards for biodiesel.

During the past year ARFuels has undergone a significant transformation of the business. In late 2011 a new experienced management team and board were instated. This has resulted in the delivery of its business plan and a return to positive cash flows for the business. The change in its operations and focus on cost control has lead ARFuels to be a cost effective producer of high quality biodiesel for the Australian market.

In the past two consecutive quarters ending 30 June 2012, it has recorded total revenues from sales of AUD\$43.5m and net operating cash flows of AUD\$4.3m (compared to six month period to June 2011 of revenues of AUD\$4.1m and negative operating cash flows).

In late May 2012, Shell opened a state-of-the-art storage and blending facility for biodiesel in Victoria, Australia. From the facility Shell launched a BioDiesel 20 (B20) into the Australian market which was a world first for Shell. The biodiesel for the facility is sourced from ARFuels's Barnawartha plant which has a production capacity of 60 million litres. Under the contract arrangement with ARFuels, Shell can take 40 to 50 million litres per annum.

From 1 July 2012 Australia introduced a Carbon Tax. Under this legislation biodiesel has a AUD\$0.06 per litre advantage over diesel when used on mining sites. As a result, ARFuels are experiencing an increase in enquiries from the mining sector. ARFuels are well positioned with its plants at Picton and Largs Bay which are located close to mining areas.

In addition ARFuels have been developing an export market and continues to expand this market with a 4,000 tonne shipment secured for delivery in the coming months.

The feedstock for ARFuels has been largely tallow and plant oils to date. It has been working on the import of recycled mill oil (RMO) and has processed 15 tonnes of RMO through its Barnawartha plant. Significantly it is close to finalising a 1,400 tonne shipment of RMO and it has confirmation from the oil majors that the RMO and other like feedstocks will comply with their strict sustainability standards.



## Review of Operations *continued*

In late 2011, the facility at Largs Bay had a fire in part of the plant facility. Fortunately the facility was insured and the claim has been successful. The plant is currently being refurbished and is expected to come back on stream later this year. ARFuels are also progressing a business interruption/loss of profits claim. A decision on this claim is expected in the coming months.

ARFuels continues to deliver its business plan and we expect the business to remain profitable and sales to increase over the coming 12 months.

Wasabi Energy announced on 15 August 2012 that it has sold 275 million ordinary share in ARFuels to Lignol (TSXV: TEC), a Canadian-based advanced biofuels company for consideration of CAD\$4,265,770. The consideration consists of CAD\$500,000 in cash, 19 million LEC common shares issued at CAD\$0.08 per share for a total of CAD\$1,520,000 and a 10-month secured convertible debenture for CAD\$2,245,770 (the "Debenture") convertible into LEC common shares at CAD\$0.15 per share. On the closing of the Share Acquisition, Wasabi will hold approximately 19.2% of the issued and outstanding common shares of LEC. Wasabi retains approximately 21 million ordinary shares in ARW.

Lignol is a Canadian company undertaking the development of biorefining technologies for the production of advanced biofuels, including fuel-grade ethanol, and other renewable chemicals from non-food cellulosic biomass feedstocks. Lignol's modified solvent based pre-treatment technology facilitates the rapid, high-yield conversion of cellulose to ethanol and the production of value-added biochemical co-products, including high purity HP-L™ lignins. HP-L™ lignin represents a new class of high purity lignin extractives (and their subsequent derivatives) which can be engineered to meet the chemical properties and functional requirements of a range of industrial applications such as paints and coatings, foundry resins, wood adhesives, thermoplastics and carbon fibres, that until now has not been possible with traditional lignin by-products generated from other processes. Lignol executing its development plan through strategic partnerships to further develop and integrate its core technologies on a commercial scale.

### Corporate

On 27 June 2012 Wasabi Energy completed a placement of 300 million ordinary shares at AUD\$0.017 (GBP£0.011) to raise AUD\$5.1m (GBP£3.3m) with the proceeds remitted to the Company on 2 July 2012 (the "Placing"). We are very pleased with the strong response from the UK institutional shareholder, demonstrating their support of the Company and business model.

In addition to the Placing, the Company has closed its non-renounceable rights issue which raised AUD\$3.8m (GBP£2.5m). As announced on 13 August 2012, there was a shortfall of 51 million shares that can be placed by the Directors over the three months to November 2012.

Funds from the placement and rights issue will be used to purchase the Option on the Tuzla Geothermal Power Project, fund investment in our other projects, bolster working capital and partially repay loans due to a Director.

Wasabi Energy commenced an American Depositary Receipt (ADR) programme in November 2011. The ADR programme allows stocks in foreign corporations to trade in the United States of America. For Wasabi Energy each ADR represents 100 ordinary shares. The ADR's are issued by the Bank of New York Mellon and traded in the US Over the Counter (OTC) market - OTCQX. The ADR programme has opened a new market of investors in the US to Wasabi Energy.

Wasabi Energy continues to implement its strategy of becoming a profitable power company and we are progressing our market penetration of the Kalina Cycle® power technology and the advancement of our build own operate strategy. We are focussed on our core business of power generation and we will continue over the next 12 months to sell down our holdings in our non-core investments.

The year ahead for Wasabi Energy is focused on the delivery of a number of Kalina Cycle® power plants and the closing of a number of significant opportunities in the build own operate area. In particular the realisation of the Turkey Tuzla Geothermal Power Plant option and the building of the business in the key geographies of Sub Saharan Africa, Japan and North America.

As the world continues to be energy constrained and more environmentally conscious the market conditions for Wasabi Energy are positive with many opportunities under development. We have established a clear strategy of commissioning a minimum of 25 MWe of owned power production from 2015 and maintain annual growth at 25 MWe. By December 2013, with our current projects in hand we will have commenced construction of power plants that in combination produce 25 MWe.

I would like to take this opportunity to thank the Board of Directors and the Wasabi Energy team for their support during a busy year. We all look forward to delivering on our strategy of becoming a power producer.



**Diane Bettess**  
Chief Operating Officer

# Directors' Report

**The directors of Wasabi Energy Limited present their annual financial report of the Company for the year ended 30 June 2012. The directors report as follows:**

The names and particulars of the directors of the Company during or since the end of the financial year are:

## Mr. John Byrne

Mr. Byrne has over 30 years' experience in the natural resources industry as an investor and resource business developer. During the past 10 years Mr. Byrne has founded and built a number of companies from the ground up, including from development through to production. In this period he has been instrumental as either CEO or Executive Chairman in overseeing the building of 6 coal mines (in Canada, the US and the UK) along with 3 wash plants, totaling in excess of \$500m of expenditure. Until May 2010 Mr. Byrne was Chairman of Western Coal Corporation, a global coal producer. Since retiring from Western Coal Corporation, Mr. Byrne is now concentrated on identifying projects in and solutions to a number of sustainability issues that exist in the world today.

*Appointed 8 May 2009.*

## Mr. Stephen Morris

Mr. Morris has more than 20 years' experience in international investment and management in a wide range of industries. Mr. Morris is founder and Chief Executive of Fifth Avenue Capital Inc (a venture capital company) and a founder and director of FAC Smaller Strategic Opportunities Inc. as an early stage resource investor.

*Appointed 13 November 2006.*

## Mr. Robert Reynolds

### Master Eng.(Mining)

Mr. Reynolds is a mining engineer with more than 30 years' experience in Australia and overseas in coal marketing as well as coal mining management and engineering. Mr. Reynolds is a consultant providing marketing advice and services to a number of national and international coal producers. Mr. Reynolds past experience was with Southland Coal, Oceanic Coal and BHP.

*Appointed 10 August 2005.*

## Mr. Robert Vallender

### B Comm.

Mr. Vallender has over 30 years of management and new technology product development experience in Australia and North America. Mr. Vallender is a consultant providing independent marketing and capital project sales advice to the Australian and European iron and steel and primary metals industries. He has dealt with major manufacturers and producers including Alcoa, U.S. Steel and General Motors.

*Appointed 10 August 2005.*

## Dr. Malcolm Jacques

### Ph.D. Chemical Engineering

Dr. Jacques is an independent energy consultant, focusing on the Renewable and Clean Energy sectors, with special emphasis on technical and regulatory issues associated with the integration of distributed and renewable energy sources into existing power grids. Dr. Jacques maintains close working relationships with policy makers, regulators, financial organizations and consultants in the energy sectors in Europe and the USA.

Dr. Jacques' international career has embraced research, development and implementation of numerous energy technologies in both the public and private sectors. He has worked with several well-known companies and organizations including BP Ventures (UK), The Energy Laboratory, MIT (Cambridge, USA), Strategic Research Foundation (Australia) and has played key roles in the establishment and management of public and private energy technology companies in Australia and North America.

*Appointed 2 March 2010.*

*The above named directors held office during the whole of the financial year and since the end of the financial year except for Mr Stephen Morris who resigned on 28 August 2012.*

## Directors' Report *continued*

### Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
John Byrne	Mandalay Resources Limited (Canada)	2009 - 2011
	Western Coal Corporation (Canada)	2000 - 2010
	Cambrian Mining Plc (UK)	2002 - 2009
	Northern Energy & Mining Inc (Canada)	2006 - 2009
	East Coal Inc (Canada)	2008 - current
Stephen Morris	Sallies Ltd (South Africa)	2009 - 2011

### Shareholdings

The following table sets out key management personnel's relevant interests in shares and options of the Company as at the date of this report.

During and since the end of the financial year no options (2011: 50 million) were granted as part of their remuneration.

Each option when exercised entitles the holder to one ordinary share.

Directors and senior management	Fully paid ordinary shares Number	Options Number
<b>Directors</b>		
John Byrne	325,579,070	20,000,000
Stephen Morris	30,057,338	2,128,929
Robert Reynolds	29,354,392	10,000,000
Robert Vallender	20,106,438	10,000,000
Malcolm Jacques	5,000,000	10,000,000
<b>Senior Management</b>		
Diane Bettess	5,720,000	15,000,000
Nico Bleijendaal	—	15,000,000
Bruce Levy	8,500,000	5,000,000
Alwyn Davey	230,017	8,000,000
Kesh Thurairasa	1,349,613	5,000,000

During and since the end of the financial year no share options were granted to Directors and officers of the company as part of their remuneration.



## Directors' meetings

The number of Directors' meetings (including meetings of Committees of Directors) and the number of meetings attended by each of the Directors of the Company held during the financial year. During the financial year, 8 Board meetings and 2 Audit Committee meetings were held during the period.

Name	Board of Directors		Audit and Finance Committee	
	Held	Attended	Held	Attended
John Byrne	8	8	2	2
Stephen Morris	8	8	–	–
Robert Reynolds	8	8	2	2
Robert Vallender	8	8	–	–
Malcolm Jacques	8	8	–	–

## Company secretary

The name(s) and particulars of the Company secretary during or since the end of the financial year are:

### Name

Alwyn Davey	Mr. Alwyn Davey was appointed to the position of Company Secretary on 9 July 2009. Mr. Davey has experience in cross border mergers, acquisitions and investments as well as formally being a member of the Executive committee of Cambrian Mining Plc, a diversified mining group. He was a non-executive director for Energybuild Group Plc, a UK listed coal company and has been company secretary of a number of UK listed companies which were predominately part of the Cambrian Mining Plc group. Mr. Davey holds an LLB degree from Waikato University, NZ.
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## Principal activities

The principal activity of the consolidated entity during the year was the continued management of its projects and investments.

## Review of operations

The consolidated loss for the year amounted to \$7,448,777 (2011: \$547,288 loss).

The Review of Operations is set out on pages 4 to 10 of this report.

## Changes in state of affairs

There was no significant change in the state of affairs of the consolidated entity during or since the year end.

## Directors' Report *continued*

### Subsequent events

Except as noted below, there has not been any matter or circumstance that has arisen since the end of the financial period, that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future financial periods.

- (i) On 2 July 2012 the company raised \$4,695,349 net of capital raising costs from a private placement of 300 million ordinary shares.
- (ii) On 15 August 2012 the company agreed to sell 275 million ordinary shares of Australian Renewable Fuels Ltd shares to Lignol Energy Corporation (Lignol) a Canadian based advanced biofuels company for a consideration of C\$4,265,770 (A\$4,129,097). The consideration was cash worth C\$500,000 (A\$483,980), 19 million common shares in Lignol and a 10-month secured convertible debenture for C\$2,245,770 (A\$2,173,817) convertible into Lignol common shares at C\$0.15 per share.
- (iii) On 16 August 2012 the company agreed to increase its holding in AAP Carbon Holdings Ltd (AAP Carbon) from 25% to 62.5%. Under the terms of the transaction, AAP Carbon will issue 15.2 million new shares and 4.7 million warrants exercisable at A\$0.10 as consideration for an exclusive Kalina Cycle® license (excluding cement and lime industry) to be used in Sub Sahara Africa region.
- (iv) On 17 August 2012 the company announced the conclusion of the rights issue with an issue of 224 million fully paid ordinary shares for a consideration of \$3,745,412 net of costs

### Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future years and the expected results of those operations may result in unreasonable prejudice to the consolidated entity and therefore have not been disclosed in this report.

### Environmental regulations

The consolidated entity's operations are subject to environmental regulation under both Commonwealth and State legislation. There have been no significant known breaches of these regulations by the consolidated entity.

### Dividends

No dividends have been paid or declared since the start of the year.

### Shares under option or issued on exercise of options

Details of unissued shares or interest under option as at the date of this report:

Issuing Entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Wasabi Energy Limited	52,128,929	Ordinary	1.6 cents	30 September 2012
Wasabi Energy Limited	8,000,000	Ordinary	2.0 cents	30 September 2012
Wasabi Energy Limited	30,000,000	Ordinary	2.3 cents	30 September 2012
Wasabi Energy Limited	6,500,000	Ordinary	2.8 cent	17 December 2013
Wasabi Energy Limited	42,400,000	Ordinary	3.9 cent	24 February 2013
Wasabi Energy Limited	10,000,000	Ordinary	3.4 cent	1 April 2014

Details of shares or interest issued during or since the end of the financial year as a result of exercise of an option are:

Issuing Entity	Number of Options converted to shares	Class of shares	Amount paid for shares	Amount unpaid
Wasabi Energy Limited	207,800,124	Ordinary	\$2,078,001	Nil

### Indemnification of officers and auditors

The Company has entered into agreements to indemnify all the Directors and Officers named in this report against all liabilities to persons (other than the Company), which arise out of the Directors and Officers conduct unless the liability relates to conduct involving a lack of good faith or is otherwise prohibited by law. The Company has agreed to indemnify the Directors and Officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments.

In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

The Company has not during or since the end of the year indemnified or agreed to indemnify an auditor of the Company against a liability incurred as auditor.

### Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 33 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 33 to the financial statements do not compromise the external auditor's independence, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

### Auditor's independence declaration

The auditor's independence declaration is included on page 68 of the annual report.



## Directors' Report *continued*

### Remuneration report – audited

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Wasabi Energy Limited's directors and its senior management for the financial year ended 30 June 2012. The prescribed details for each person covered by this report are detailed below under the following headings:

- directors and senior management personnel details
- remuneration policy
- relationship between the remuneration policy and Company performance
- remuneration of directors and senior management
- key terms of employment contracts.

### Directors and senior management personnel

The following persons acted as directors of the Company during or since the end of the financial year:

#### Executive Directors

- John Byrne
- Stephen Morris (resigned 28 August 2012)
- Malcolm Jacques

#### Non-Executive Directors

- Robert Vallender
- Robert Reynolds

The term 'senior management' is used in this remuneration report to refer to the following key management personnel. Except as noted, the named key management personnel held their current position during or since the end of the financial year:

- Diane Bettess (*Chief Operating Officer – Wasabi Energy Limited*) appointed 20 December 2010
- Nico Bleijendaal (*President – International – Wasabi Energy Limited*) appointed 20 December 2010
- Bruce Levy (*Managing Director – Global Geothermal Limited*)
- Alwyn Davey (*Company Secretary – Wasabi Energy Limited*)
- Kesh Thuraiasa (*Financial Controller – Wasabi Energy Limited*)

## Remuneration policy

The Board policy for determining the nature and amount of key management personnel and other remuneration is agreed by the Board of Directors.

The terms 'remuneration' and 'compensation' are used interchangeably throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel comprise the directors of the Company and senior management of the Company.

Compensation levels for key management personnel and other employees of the Company are competitively set to attract and retain appropriately qualified and experienced directors and senior management.

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

- the capability and experience of key management personnel and other employees; and
- the ability of key management personnel and other employees to control areas of their respective responsibilities.

### Senior Executive Remuneration

Compensation packages for the Executive Directors and senior management include a mix of fixed and incentive based compensation.

The Board regularly reviews the policy regarding the appropriate mix of fixed and incentive based compensation for senior executives, having regard to industry practice to ensure the Company attracts and retains the best people.

#### *Fixed compensation*

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

Fixed compensation levels are reviewed annually by the Board through a process that considers individual contributions and overall performance of the Group, as well as market relativity. A senior executive's compensation is also reviewed on promotion.

#### *Incentive based compensation*

The Company does not currently operate a short-term incentive scheme and, in 2012, no cash awards were made to the executives except for B Levy as disclosed in the remuneration report. The Board did not operate a short-term incentive scheme for the 2012 financial year, however will review this in the context of the formal review of the Company's broader executive remuneration policy to be undertaken during the 2013 financial year.

In the 2012 financial year, no options were issued to Directors and senior executives. However in 2011 and 2010, the Company issued options to Directors and senior executives. The current approach of not having time based vesting is considered appropriate. The Board will continue to review the appropriateness of the time based vesting conditions for future grants of options. There is no condition other than period of service for granting of options. The company considers the issue of options sufficiently aligns the interest of the entity with the incentive given to key management personnel.

All options expire on the earlier of their expiry date or termination of the individual's employment.

### Non-Executive Director Remuneration

Non-Executive Director fees are paid within an aggregate limit which must not exceed \$250,000 (excluding mandatory superannuation) per annum or such other maximum as determined by the Company in a general meeting.

The cash fees paid to Independent Non-Executive Directors for the 2012 financial year were \$25,000 (2011:\$25,000) per annum, plus statutory superannuation.

All Non-Executive Directors are eligible to participate in the options granted.

All Non-Executive Directors are also entitled to be reimbursed for all reasonable travel, accommodation and other expenses incurred in attending meetings of the Board, committees or shareholders or while engaged on other Wasabi Energy Limited business.

## Directors' Report *continued*

### Remuneration report – audited *continued*

#### Relationship between the remuneration policy and Company performance

The achievement of Company strategic objectives is the key focus of the efforts of the Company, and it is the leadership of the directors and senior management which makes the achievement of this aim possible. As indicated above, over the course of the 2012 financial year, the Board will review the Company's executive remuneration policy to ensure the remuneration framework remains focused on driving and rewarding executive performance, while being closely aligned to the achievement of Company strategic objectives and the creation of shareholder value.

Shareholder returns are primarily measured by the movement in share price from the start to the end of each financial year. No dividends have been declared in the past four financial years or the current financial year. As the Company remains in the growth phase of its life cycle, shareholder returns do not correlate with revenues and losses reported in any of the recent financial years. Shareholder returns are more dependent on the future expectation of Company performance rather than Company earnings.

The table below set out summary information about the consolidated entity's earnings and movement in shareholder wealth for the five years to 30 June 2012.

	30 June 2012	30 June 2011	30 June 2010	30 June 2009	30 June 2008
Revenue	4,876,720	4,047,090	756,532	2,674,183	5,184,053
Net (loss)/profit before tax	(7,448,777)	(547,288)	(8,482,739)	(14,772,581)	320,269
Net (loss) after tax	(7,448,777)	(547,288)	(8,482,739)	(13,110,680)	(551,867)
Share price at start of year (cents)	3.2	1.2	1.5	2.6	3.9
Share price at end of year (cents)	1.7	3.2	1.2	1.5	2.6
Dividends paid (cents)	–	–	–	–	–
Basic and diluted (loss) per share (cents)	(0.31)	(0.02)	(0.65)	(1.59)	(0.07)



## Remuneration of directors and senior management – audited

		Short-term employment benefits			Post-employment	Equity (Long-term)			
		Salary & Fees	Other payments	Non-monetary	Superannuation	Options Expensed in Year <sup>(1)</sup>	Share based payment	S300A(1) (e)(vi) Value of options as proportion of total remuneration	Total
<b>Executive Director</b>		\$	\$	\$	\$	\$	\$	%	\$
John Byrne	2012	140,000	–	17,252	–	–	–	–	157,252
	2011	92,083	–	16,174	–	–	–	–	108,257
Stephen Morris	2012	251,830	–	–	–	–	–	–	251,830
	2011	157,150	–	–	–	–	–	–	157,150
Malcolm Jacques	2012	120,000	–	–	–	–	–	–	120,000
	2011	120,000	–	–	–	111,644	–	48	231,644
<b>Non-executive directors</b>									
Robert Reynolds	2012	25,000	–	–	2,250	–	–	–	27,250
	2011	25,000	–	–	2,250	–	–	–	27,250
Robert Vallender	2012	25,000	–	–	2,250	–	–	–	27,250
	2011	25,000	–	–	2,250	–	–	–	27,250
<b>Senior Management</b>									
Diane Bettess	2012	300,000	–	–	27,000	–	–	–	327,000
	2011	150,000	–	11,682	13,500	150,264	–	46	325,446
Nico Bleijendaal	2012	240,000	–	–	–	–	–	–	240,000
	2011	140,000	–	–	–	150,264	–	52	290,264
Bruce Levy	2012	290,557	96,852	16,825	–	–	–	–	404,234
	2011	186,010	50,513	–	–	88,164	93,000	21	417,687
Alwyn Davey	2012	180,000	–	11,273	16,200	–	–	–	207,473
	2011	150,000	–	10,572	13,500	–	–	–	174,072
Kesh Thurairosa	2012	137,500	–	–	12,375	–	–	–	149,875
	2011	104,167	–	–	9,375	88,164	–	44	201,706
<b>TOTALS</b>	<b>2012</b>	<b>1,709,887</b>	<b>96,852</b>	<b>45,350</b>	<b>60,075</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,912,164</b>
<b>TOTALS</b>	<b>2011</b>	<b>1,149,410</b>	<b>50,513</b>	<b>38,428</b>	<b>40,875</b>	<b>588,500</b>	<b>93,000</b>	<b>30</b>	<b>1,960,726</b>

(1) Determined using Black Scholes valuation method. Expensing of grant date fair value options on a straight-line basis over vesting period and includes value of options lapsed during the period due to the failure to exercise options before the expiry date.

### Notes

- No cash awards were paid during the 2012 financial year (2011: Nil). All awards were made in the form of options.
- During the year no options were issued to directors and senior management.

# Directors' Report *continued*

## Remuneration report – audited *continued*

### Equity instruments

#### Options (note 35 (i))

During the financial year no options were issued to directors and the Board of Directors did not approve and the company did not issue options to employees and consultants.

The options entitle the holder to acquire one share by way of issue.

#### Modification of terms of equity-settled share-based payment transactions

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

#### Analysis of options over equity instruments granted as compensation

No options were granted as remuneration to any key management person of the Group and Group executives.

During the financial year the following share-based payment arrangements were in existence:

Option series	Grant date	Expiry Date	Grant date fair value	Vesting date
(i) Issued 26 November 2009	25/09/09	30/09/12	1.3 Cents	Vests at date of grant
(ii) Issued 19 January 2010	19/01/10	30/09/12	1.0 Cents	Vests at date of grant
(iii) Issued 29 November 2010	29/11/10	30/09/12	1.1 Cents	Vests at date of grant
(iv) Issued 20 December 2010	20/12/10	30/09/12	1.0 Cents	Vests at date of grant
(v) Issued 25 February 2011	25/02/11	24/02/13	1.8 Cents	Vests at date of grant

There are no further services or performance criteria that need to be met in relation to options granted under series (i) – (v) before interests vests in the recipient, except that options are forfeited upon termination of employment.

During the year no options were exercised by Directors or senior management.

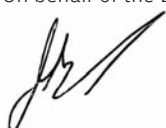
### Key terms of employment contracts

The remuneration and other terms of employment for the Executive Directors and Senior Management are set out in service letters. These letters makes provision for a fixed remuneration component, and options as a long-term incentive. The material terms of the service letters are set out below.

Term	Conditions	Position
Duration of contract	Ongoing until notice is given by either party	Executive Directors/Company Secretary/ Senior Management
Voluntary termination (i.e. termination by executive by giving notice)	6 months' notice	Executive Directors/Company Secretary/ Senior Management
Termination by Company without cause	6 months' fixed compensation or payment in lieu	Executive Directors/Company Secretary/ Senior Management
Termination by Company for cause	Employment may be terminated immediately without notice if the executive commits any act or omission justifying summary dismissal at common law.	Executive Directors/Company Secretary/ Senior Management

Signed in accordance with a resolution of the directors made pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the Directors



**John Byrne**

Executive Director

Melbourne, 29 August 2012

# Corporate Governance Statement

## Statement

Wasabi Energy Limited ("Company") continues to work towards implementing systems of control and accountability as the basis for the administration of corporate governance. This Corporate Governance Statement sets out the company's current compliance with the Australian Stock Exchange ("ASX") Corporate Governance Council's Principles and Recommendations, 2nd edition ("Recommendations"). The Company is currently considering, implementing or has followed each Recommendation where the Board has considered the Recommendation to be an appropriate benchmark for corporate governance practices, and is taking into account factors such as the size of the company and the Board, resources available and activities of the company. The board has resolved to establish a corporate governance committee in order to implement and review on an ongoing basis the development of the company's corporate governance systems.

## Recommendations

### 1. Lay solid foundations for management and oversight

- 1.1 ***Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.*** The company refers all major investment decisions to the Board for consideration and approval. Day to day operations of the Company is the responsibility of the Executive Directors.
- 1.2 ***Companies should disclose the process for evaluating the performance of senior executives.*** The performance of key executives is reviewed regularly by reference to ongoing performance of the company and its investments. The Board have resolved to form a Remuneration Committee who will perform this review going forward. During the period, no formal evaluations were undertaken.
- 1.3 ***Companies should provide the information indicated in the Guide to reporting on Principle 1.*** All of the information identified in the 'Guide to Reporting on Principle 1' has been satisfied either in the Corporate Governance Statement or the Directors' Report in the Annual Report. The skills, expertise and experience of directors relevant to their positions and their term in office are disclosed in the Directors' Report. The company's corporate governance policy, including the charters for its various Board committees, is available on the company's website.

### 2. Structure the Board to add value

- 2.1 ***A majority of the Board should be independent directors.*** Directors of Wasabi Energy Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, 'materiality' is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Wasabi Energy Limited are considered to be independent:

Name	Position
Robert Reynolds	Non-Executive Director
Robert Vallender	Non-Executive Director

The company's Board comprises 5 directors. Therefore, there is not a majority of independent directors on the Board; however the directors consider that the balance of independent and non-independent directors is appropriate given the size of the Board and the company.

There are procedures in place, agreed by the Board, to enable directors in the furtherance of their duties to seek independent professional advice at the company's expense.

- 2.2 ***The chair should be an independent director.*** The Chairman, John Byrne, is not considered as an independent director. Due to the size of the company and the board this is deemed acceptable to the directors of the company. Should the company increase in size then the company will consider, and if thought appropriate, appoint an independent director as chairman.
- 2.3 ***The roles of chair and Chief Executive Officer should not be exercised by the same individual.*** The chair and the Chief Executive Officer are both considered to be John Byrne. Due to the size of the company and the board this is deemed acceptable to the directors of the company. Should the company increase in size then the company will consider, and if thought appropriate, appoint a separate person to the role of Chief Executive Officer. The company has a Chief Operating Officer who assists the chairman in the management of the company.
- 2.4 ***The Board should establish a nomination committee.*** There is no specific nomination committee. Currently all members of the Board are part of this process to ensure the Board continues to operate within the established guidelines

## Corporate Governance Statement *continued*

including when necessary, selecting candidates for the position of director. When a vacancy occurs, through whatever cause, or where it is considered that the company would benefit from the skills of an additional Director with particular skills, the Board will consider candidates with the appropriate expertise and experience. The directors consider that this is appropriate given the size of the Board and the company.

- 2.5 **Companies should disclose the process for evaluating the performance of the Board.** The performance of the Board is not currently reviewed annually. This performance is reviewed on an ad hoc basis by the board and directors are assessed based on the financial and non-financial objectives and results of the company. Directors whose performance is consistently unsatisfactory may be asked to retire. During the reporting period, the Board did not meet to specifically evaluate the performance of Board members, which was considered appropriate given the given the size of the Board and the company.
- 2.6 **Companies should provide the information indicated in 'Guide to Reporting on Principle 2'.** All of the information identified in the 'Guide to Reporting on Principle 2' has been satisfied either in the Corporate Governance Statement or the Directors' Report in the Annual Report. The skills, expertise and experience of directors relevant to their positions and their term in office are disclosed in the Directors' Report. The company's corporate governance policy, including the charters for its various Board committees, is available on the company's website.

### 3. Promote ethical and responsible decision-making

- 3.1 **Establish a code of conduct and disclose the code or a summary of the code as to:**
- (a) the practices necessary to maintain confidence in the company's integrity;
  - (b) the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
  - (c) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The company has not yet established a formal written code of conduct. The board is currently reviewing this aspect of the corporate governance guidelines and will establish an appropriate code of conduct relative to the size of the company. Currently each of the directors is aware of the investment and corporate objectives of the company and is conscious of the expectations of the shareholders, investee companies and their stakeholders. Any activities of the company are undertaken in consideration of all legal and regulatory requirements as well as with consideration of the

underlying value of the activity to shareholders and other stakeholders. The Company Secretary is primarily tasked with maintaining a high level of compliance on all aspects of the business and has the support of the board to achieve this outcome.

- 3.2 **Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.** The Board has not yet established a formal written policy concerning diversity. The board is reviewing this aspect of the corporate governance guidelines. Currently the Company includes both women and men in senior management positions. Due to the size of the company and the board this is deemed acceptable to the directors of the company.
- 3.3 **Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress to achieving them.** As the Board has not yet established a formal written policy concerning diversity there are no measurable objectives set. The board is reviewing this aspect of the corporate governance guidelines with a view to implement a policy that is appropriate to the size and development of the Company.
- 3.4 **Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior positions and women on the board. The Company does not have any women on the Board.** The Chief Operating Officer is a women. Overall there are 20% of the Company's employees who are women operating in 3 countries, across engineering, finance and administration.
- 3.5 **Companies should provide the information indicated in the Guide to reporting on Principle 3.** All of the information identified in the 'Guide to Reporting on Principle 3' has been satisfied either in the Corporate Governance Statement or the Directors' Report in the Annual Report.

### 4. Safeguard integrity in financial reporting

- 4.1 **The Board should establish an audit committee.** The Board has established an audit committee which operates under a charter approved by the Board. It is the audit committee's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operations key performance indicators. The Committee will also provide the



Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

**4.2 The audit committee should be structured so that it:**

- (a) consists of only non-executive directors;
- (b) consists of a majority of independent directors;
- (c) is chaired by an independent chair who is not chair of the Board; and
- (d) has at least three members.

The audit committee was appointed on 9 July 2009 and comprises:

Name	Qualifications
John Byrne	Nil
Robert Reynolds (Chairman)	Master Eng. (Mining)

In accordance with the definition of independence described in Recommendation 2.1 above, and the materiality thresholds set, Robert Reynolds is considered to be independent and is a non-executive director. John Byrne is not considered independent and is an executive director.

The committee is currently chaired by Mr Robert Reynolds who is not chair of the Board.

The committee has two members, only one of which is independent, which is less than the recommended minimum of three and a majority of independent directors, but given the size and nature of the Board, the directors consider that this is appropriate.

**4.3 The audit committee should have a formal charter.** The committee has a formal charter which is disclosed on the company's website.

**4.4 Companies should provide the information indicated in 'Guide to Reporting on Principle 4'.** The information identified in the 'Guide to Reporting on Principle 4' has been satisfied either in the Corporate Governance Statement or the Directors' Report in the Annual Report.

**5. Make timely and balanced disclosure**

**5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance.** The company has made the directors and the senior management of its subsidiaries and associates aware of the requirement for continuous and periodic disclosure to ensure the factual presentation of the company's financial position and market-sensitive information is maintained in an orderly and timely fashion. At present the company does not have a written policy due to the size of the company and the limited number of people and activities of the company. The board consider this is appropriate for the size of the company however it is

currently reviewing its policies in regard to this Recommendation.

**5.2 Companies should provide the information indicated in 'Guide to Reporting on Principle 5'.** A summary of the company's continuous disclosure policy is set out above and if appropriate will be disclosed on the company's website.

**6. Respect the rights of shareholders**

**6.1 Companies should design a communication policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.** The company has a shareholders communication policy which aims to ensure that the shareholders are informed of all major developments affecting the company. All shareholders are able to receive the company's annual report. The company also encourages full participation of shareholders at its annual general meeting and at extraordinary general meetings when called. The company makes available a telephone and email address for shareholders to make enquiries of the company.

**6.2 Companies should provide the information indicated in 'Guide to Reporting on Principle 6'.** The company maintains a website on which it makes available: company announcements; shareholder meeting notices and explanatory materials; financial information and annual reports. The company is currently reviewing its website and where necessary will enhance the information available on that site.

**7. Recognise and manage risk**

**7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.** The identification and effective management of risk is viewed as an essential part of the company's approach to creating long-term shareholder value. In recognition of this, the Board has determined to form a Risk Committee to better determine the company's risk profile and this committee will be responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. This process is ongoing and will continue to be a focus of the committee and the board.

**7.2 The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively.** The company will be establishing a risk management policy within which will be set out a framework for a system of risk management and internal compliance and control. Senior management as required will have responsibility for identifying, assessing, treating and

## Corporate Governance Statement *continued*

monitoring risks and reporting to the Board on these risks and the extent to which it believes they are being adequately managed. Senior Management have been proactively undertaking risk management processes in order to report to the board the outcomes.

- 7.3 ***The Board should disclose whether it has received assurances from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295 of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.*** The Board has received a

declaration from the Company Secretary, being an officer with primary responsibility as defined by section 295 of the Corporations Act, assuring that the declaration provided in accordance with section 295 of the Corporations Act is founded on a sound system of risk management and internal control and that the system, to the extent that they relate to financial reporting, is operating effectively in all material respects.

- 7.4 ***Companies should provide the information indicated in 'Guide to Reporting on Principle 7'.*** A summary of the company's risk management policy is disclosed on the company's website.

### 8. Remunerate fairly and responsibly

- 8.1 ***The Board should establish a remuneration committee.***

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the executive officers and executive team. The Board has established a remuneration committee, which comprises of

the chairman and two non-executive directors. Given the size and nature of the Board, the directors consider that this is appropriate that the Chairman, while not independent is a member of the remuneration committee. The remuneration committee has not yet met. The terms of reference for the remuneration committee include review and recommendation to the board on the company's remuneration, recruitment and termination for senior executives, review of executives' performance and a framework for directors' compensation.

- 8.2 ***Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executives.*** The Directors are paid \$25,000 per annum.

Executive directors receive additional remuneration as set out in the 'Remuneration Report (audited)' section of the Directors Report. Further information regarding the executive and non-executive remuneration framework and payments is detailed in the 'Remuneration Report (audited)' section of the Directors Report.

- 8.3 ***Companies should provide the information indicated in 'Guide to Reporting on Principle 8'.*** There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors. The formal charter is disclosed on the company's website. The company has not yet adopted a formal policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes. All of the other information identified in the 'Guide to Reporting on Principle 8' has been satisfied either in the Corporate Governance Statement or the Directors' Report in the Annual Report.

# Statement of comprehensive income

for the financial year ended 30 June 2012

Consolidated			
	Note	2012 \$	2011 \$
Revenue	4	4,876,720	4,047,090
Cost of Sales		(4,216,183)	(4,137,386)
Gross profit/(loss)		660,537	(90,296)
Other revenue		977,040	731,006
Finance income		177,118	217,966
Employee benefits expenses		(2,920,290)	(3,363,107)
Administration expenses		(1,339,742)	(774,939)
Depreciation and amortisation expenses	6	(207,281)	(114,295)
Travel expenses		(1,097,443)	(1,014,922)
Fair value gain/(loss) on held for trading investments		(148,500)	–
Gain on derecognition of an associate	13, 36	1,323,700	–
Impairment of investments classified as held for sale		(3,761,539)	–
Gain recognised on loss of significant influence in former associate		–	8,134,181
Legal and professional fees		(1,602,482)	(2,113,093)
Patent costs		(252,602)	(234,270)
Exchange variation	6	374,445	(735,123)
Fair value gain/(loss) on options		(24,318)	1,414,056
Finance costs	5	(67,420)	(358,874)
Profit/(loss) from equity accounted investments	13	460,000	(2,245,578)
Loss before tax		(7,448,777)	(547,288)
Income tax benefit	7	–	–
<b>Loss for the year</b>		<b>(7,448,777)</b>	<b>(547,288)</b>
<b>Attributed to:</b>			
<b>Owners of the parent</b>		<b>(7,319,039)</b>	<b>(446,912)</b>
<b>Non-controlling interest</b>		<b>(129,738)</b>	<b>(100,376)</b>
		<b>(7,448,777)</b>	<b>(547,288)</b>
<b>Other comprehensive income</b>			
Exchange reserve arising on translation of foreign operations		(213,957)	276,653
Gain/(loss) on available-for-sale investments taken to equity		667,603	536,308
<b>Other comprehensive income for the period net of tax</b>		<b>453,646</b>	<b>812,961</b>
<b>Total comprehensive income for the period</b>		<b>(6,995,131)</b>	<b>265,673</b>
<b>Total comprehensive income attributable to:</b>			
<b>Owners of the parent</b>		<b>(6,883,074)</b>	<b>213,780</b>
<b>Non controlling interest</b>		<b>162,057</b>	<b>51,893</b>
		<b>(6,995,131)</b>	<b>265,673</b>
<b>Loss per share</b>			
From continuing and discontinued operations:			
Basic (cents per share)	34	(0.31) cents	(0.02) cents
Diluted (cents per share)	34	(0.31) cents	(0.02) cents

Notes to the financial statements are included on pages 30 to 66.

# Statement of changes in equity

for the financial year ended 30 June 2012

## Consolidated

	Issued capital and contributed equity \$	Investment revaluation reserve \$	Foreign currency translation reserve \$
<b>Balance at 1 July 2010</b>	<b>34,125,003</b>	<b>154,384</b>	<b>(112,824)</b>
Loss for the year	–	–	–
Movement in foreign exchange values	–	–	234,203
Gain/(loss) in AFS investments (note 24.2)	–	536,308	–
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>536,308</b>	<b>234,203</b>
Recognition of share-based payments (note 24.4)	–	–	–
Issue of shares	13,633,133	–	–
Share issue cost (note 22.1)	(1,365,187)	–	–
Exercise of options (note 22.1)	1,969,948	–	–
Difference arising on increased control of subsidiary	–	–	–
<b>Balance at 30 June 2011</b>	<b>48,362,897</b>	<b>690,692</b>	<b>121,379</b>
<b>Balance at 1 July 2011</b>	<b>48,362,897</b>	<b>690,692</b>	<b>121,379</b>
Loss for the year	–	–	–
Movement in foreign exchange values	–	–	(213,957)
Gain/(loss) in AFS investments (note 24.2)	–	667,603	–
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>667,603</b>	<b>(213,957)</b>
Forfeiture of employee options (note 24.4)	–	–	–
Issue of shares	1,000,000	–	–
Share issue cost (note 22.1)	(36,818)	–	–
Exercise of options (note 22.1)	2,078,001	–	–
Recognition of minority interest	–	–	–
Treasury shares held by associate	–	–	–
Difference arising on increased control of subsidiary	–	–	–
<b>Balance at 30 June 2012</b>	<b>51,404,080</b>	<b>1,358,295</b>	<b>(92,578)</b>



Share based payments reserve \$	Other reserves \$	Treasury Shares \$	Accumulated losses \$	Attributable to owners of the parent \$	Non-controlling interest \$	Total \$
2,356,886	(2,099,334)	—	(33,734,933)	689,182	(175,435)	513,747
—	—	—	(446,912)	(446,912)	(100,376)	(547,288)
—	—	—	—	234,203	152,269	386,472
—	—	—	—	536,308	—	536,308
—	—	—	(446,912)	323,599	51,893	375,492
1,404,048	—	—	—	1,404,048	—	1,404,048
—	—	—	—	13,633,133	—	13,633,133
—	—	—	—	(1,365,187)	—	(1,365,187)
(102,593)	—	—	—	1,867,355	—	1,867,355
—	(1,072,659)	—	—	(1,072,659)	(6,245)	(1,078,904)
3,658,341	(3,171,993)	—	(34,181,845)	15,479,471	(129,787)	15,349,684
3,658,341	(3,171,993)	—	(34,181,845)	15,479,471	(129,787)	15,349,684
—	—	—	(7,319,039)	(7,319,039)	(129,738)	(7,448,777)
—	—	—	—	(213,957)	—	(213,957)
—	—	—	—	667,603	291,795	959,398
—	—	—	(7,319,039)	(6,865,393)	162,057	(6,703,336)
(101,388)	—	—	—	(101,388)	—	(101,388)
—	—	—	—	1,000,000	—	1,000,000
—	—	—	—	(36,818)	(6,486)	(43,304)
—	—	—	—	2,078,001	—	2,078,001
—	—	—	—	—	579,641	579,641
—	—	(450,800)	—	(450,800)	—	(450,800)
—	(1,159,994)	—	—	(1,159,994)	129,878	(1,030,207)
3,556,953	(4,331,987)	(450,800)	(41,500,884)	9,943,079	735,212	10,678,291

# Statement of financial position

as at 30 June 2012

		Consolidated	
	Note	2012 \$	2011 \$
<b>Current assets</b>			
Cash and cash equivalents	28	72,105	5,223,011
Trade and other receivables	8	1,721,046	3,644,182
Inventory		2,960	–
Other financial assets	9	100,336	302,333
Non current assets held for sale	10	3,695,118	7,005,057
<b>Total current assets</b>		<b>5,591,565</b>	<b>16,174,583</b>
<b>Non-current assets</b>			
Trade and other receivables	11	1,014,650	34,412
Assets classified as available-for-sale	12	5,242,770	946,495
Investments accounted for using the equity method	13	9,200	–
Property, plant and equipment	14	532,484	169,923
Capital work-in-progress	15	377,962	–
Goodwill	16	2,824,674	–
Intangible assets	17	1,192,176	179,658
<b>Total non-current assets</b>		<b>11,193,916</b>	<b>1,330,488</b>
<b>Total assets</b>		<b>16,785,481</b>	<b>17,505,071</b>
<b>Current liabilities</b>			
Trade and other payables	18	2,607,590	1,160,853
Borrowings	19	3,024,426	446,155
Provisions	20	172,585	170,725
<b>Total current liabilities</b>		<b>5,804,601</b>	<b>1,777,733</b>
<b>Non-current liabilities</b>			
Trade and other payables	21	302,589	377,654
<b>Total non-current liabilities</b>		<b>302,589</b>	<b>377,654</b>
<b>Total liabilities</b>		<b>6,107,190</b>	<b>2,155,387</b>
<b>Net assets</b>		<b>10,678,291</b>	<b>15,349,684</b>
<b>Equity</b>			
Issued capital	22	51,404,080	48,362,897
Reserves	24	39,883	1,298,419
Accumulated losses	25	(41,500,884)	(34,181,845)
Total equity attributable to equity holders of the company		9,943,079	15,479,471
Non-controlling interest	24.6	735,212	(129,787)
<b>Total equity</b>		<b>10,678,291</b>	<b>15,349,684</b>

Notes to the financial statements are included on pages 30 to 66.



# Cash flow statement

## for the financial year ended 30 June 2012

		Consolidated	
	Note	2012 \$	2011 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		3,857,751	3,828,086
Interest and finance costs paid		(19,005)	(37,338)
Payments to suppliers and employees		(11,152,859)	(9,853,213)
Sundry Income		349,172	–
<b>Net cash used in operating activities</b>	28	<b>(6,964,941)</b>	<b>(6,062,465)</b>
<b>Cash flows from investing activities</b>			
Interest received		35,521	208,120
Payment for plant and equipment		(237,302)	(89,563)
Payments for equity investments		(784,035)	–
Payments for option to acquire new venture		(840,344)	–
Payment for capitalised development		(76,431)	–
Proceeds from sale of plant and equipment		1,127	–
Proceeds from sale of equity investments		778,574	6,790,083
Loans to related party	32(d)	(1,957,513)	(2,525,732)
Receipts from deposits		17,219	–
Net cash inflow on acquisition of subsidiary		26,988	–
Payment for increased shareholding in subsidiaries and associates		–	(1,664,630)
Loan repaid by related party		104,242	1,350,751
<b>Net cash used in investing activities</b>		<b>(2,931,954)</b>	<b>4,069,029</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		2,078,001	13,925,960
Proceeds from borrowings		2,976,011	1,025,000
Repayment of borrowings		(519,207)	(6,194,906)
Capital raising costs		–	(1,365,187)
<b>Net cash provided by financing activities</b>		<b>4,534,805</b>	<b>7,390,867</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(5,362,090)</b>	<b>5,397,431</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>5,223,011</b>	<b>226,103</b>
<b>Effect of movement in exchange rates on cash balances</b>		<b>211,184</b>	<b>(400,523)</b>
<b>Cash and cash equivalents at the end of the financial year</b>	28	<b>72,105</b>	<b>5,223,011</b>

# Notes to the Financial Statements

for the financial year ended 30 June 2012

## 1. General information

Wasabi Energy Limited is a company limited by shares, incorporated and domiciled in Australia. The principal activities of the company and its subsidiaries are disclosed in note 3. Wasabi Energy's registered office and its principal place of business are as follows:

### Registered office

Level 9, 175 Collins Street,  
Melbourne VIC 3000

### Principal place of business

Level 9, 175 Collins Street,  
Melbourne VIC 3000

## 2. Summary of accounting policies

### Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

### Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments that are measured at revalued amounts or fair values as explained in the accounting policies below. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The financial statements were authorised for issue by the directors on 28 August 2012.

### Critical accounting estimates and judgements

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

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

### The key critical accounting estimates and judgments are:

- Financial assets, including investments in associates, have been assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been affected (note 9, 10 and 12).
- Share options issued by the Company have been valued using a Black-Scholes pricing model (note 35).
- Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value (note 16).
- During the year, the directors reconsidered the recoverability of the Group's internally generated intangible asset arising from its new business development in South Africa, which is included in the consolidated statement of financial position at 30 June 2012 at \$168,464 (30 June 2011: NIL) (note 17).
- During the year, the Company acquired in excess of 20% of the issued share capital in both AAP Carbon and CleanTeQ. The directors concluded that Wasabi does not have significant influence over either of these entities because Wasabi did not have the power to participate in the financial and operating policy decisions of the entities.

Options held by the Company in other listed entities have been valued using a Black-Scholes pricing model (note 9).



### Adoption of new and revised accounting standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the annual reporting period beginning 1 July 2011. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes below. The Group has adopted the following Standards as listed below which only impact on the Group's financial statements with respect to disclosure:

### Standards affecting presentation and disclosure

AASB 124 'Related Party Disclosures' (revised December 2009)	AASB 124 (revised December 2009) has been revised on the following two aspects: (a) AASB 124 (revised December 2009) has changed the definition of a related party and (b) AASB 124 (revised December 2009) introduces a partial exemption from the disclosure requirements for government-related entities.
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### Standards and interpretation adopted with no effect in the financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact in the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2009-14 'Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement'	Interpretation 114 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of AASB 119; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments to Interpretation 114 has not had material effect on the Group's consolidated financial statements.
AASB 2010-5 'Amendments to Australian Accounting Standards'	The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. The application of AASB 2010-5 has not had any material effect on amounts reported in the Group's consolidated financial statements.
AASB 2010-6 'Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets'	<p>The application of AASB 2010-6 makes amendments to AASB 7 'Financial Instruments - Disclosures' to introduce additional disclosure requirements for transactions involving transfer of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred and derecognised but the transferor retains some level of continuing exposure in the asset.</p> <p>To date, the Group has not entered into any transfer arrangements of financial assets that are derecognised but with some level of continuing exposure in the asset. Therefore, the application of the amendments has not had any material effect on the disclosures made in the consolidated financial statements.</p>

# Notes to the Financial Statements *continued*

## 2. Summary of accounting policies *continued*

### Standards and interpretations issued not yet effective

At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after
AASB 9 'Financial Instruments', AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013
AASB 10 'Consolidated Financial Statements'	1 January 2013
AASB 11 'Joint Arrangements'	1 January 2013
AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013
AASB 13 'Fair Value Measurement' and related AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013
AASB119 'Employee Benefits' (2011) and AAAB 2011-8 'Amendments to Australian Accounting Standards arising from AASB119 (2011)'	1 January 2013
AASB 127 'Separate Financial Statements (2011)'	1 January 2013
AASB 128 'Investments in Associates and Joint Ventures (2011)'	1 January 2013
AASB 2010-8 'Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets'	1 January 2012
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'	1 January 2013
AASB 2011-9 'Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income'	1 July 2012
Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' and AASB 2011-12 'Amendments to Australian Accounting Standards arising from Interpretation 20'	1 January 2013
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	1 January 2014
Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	1 January 2013
Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)	1 January 2015

These Standards and Interpretations will be first applied in the financial report of the Group that relates to the annual reporting period beginning after the effective date of each pronouncement.

The Directors have yet to assess the financial impact that the adoption of these Standards and Interpretations in future periods will have on the financial statements of the Group.

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). A controlled entity is any company in which Wasabi Energy Limited has the power to control the financial and operating policies of the entity so as to obtain benefits from its activities. Total comprehensive income of subsidiaries is attributable to owners of the Company and to the non-controlling interest even if these results in the non-controlling interest having a deficit balance.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Company.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

**(b) Borrowing costs**

All borrowing costs, except to the extent that they are directly attributable to the acquisition, construction or production of qualifying assets, are recognised in profit or loss in the period in which they are incurred.

**(c) Cash and cash equivalents**

Cash comprises cash on hand, cash at call and short-term deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**(d) Financial assets**

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset.

*At fair value through profit or loss*

An instrument is classified as at fair value through profit or loss ("FVTPL") if it is held for trading or is designated as such upon initial recognition. Financial Instruments are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's investment strategy. Upon initial recognition, the attributable transaction costs are recognised in profit or loss when incurred. Financial instruments that are at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

*Available-for-sale financial assets*

Listed shares held by the Group that are traded in an active market are classified as AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

*Loans and receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest rate method less impairment.

Interest is recognised by applying the effective interest rate.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

**(e) Financial liabilities and equity instruments issued by the Company***Interest and dividends*

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments. Borrowings are classified as financial liabilities, which are measured at amortised cost.

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

# Notes to the Financial Statements *continued*

## 2. Summary of accounting policies *continued*

### (f) Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars (“\$”), which is the functional currency of Wasabi Energy Limited, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise. For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group’s foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

### (g) Intangible assets

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation, and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends, has the technical ability and has sufficient resources to complete development and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated as cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expenses as incurred.

### (h) Impairment of tangible and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of the asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount and an impairment loss is recognised in the profit or loss statement.



Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss statement.

**(i) Income taxes**

*Current tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

*Deferred tax*

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Group intends to settle its current tax assets and liabilities on a net basis.

*Current and deferred tax for the period*

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

**(j) Inventories**

Inventories of consumable supplies and spare parts are valued at lower of cost and net realisable value.

**(k) Property, plant and equipment**

*Plant and equipment*

Buildings and plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

*Depreciation*

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The useful lives used for each class of depreciable assets are:

Leasehold improvements	2-5 years
Plant and equipment	5-10 years

# Notes to the Financial Statements *continued*

## 2. Summary of accounting policies *continued*

### (l) Non-current assets held for sale

Non-current assets are classified as held for sale as their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management is committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

### (m) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

### (n) Revenue

Revenue is measured at the fair value of the consideration received or receivable, and is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

#### *Sale of goods*

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### *Rendering of services*

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

#### *Royalties*

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably). Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

#### *Dividend and interest revenue*

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount of initial recognition.

*Construction contracts*

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recovered. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

**(o) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST'), except:

- (i) where the amount of GST incurred is not recoverable from the Australian Taxation Office, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the Australian Taxation Office is classified as operating cash flows.

**(p) Investments in associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations'. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and other comprehensive income of the associate, less any impairment in the value of individual investments.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of the acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

**(q) Share-based payments**

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 35.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to the equity-settled employee benefits reserve.

## Notes to the Financial Statements *continued*

### 2. Summary of accounting policies *continued*

#### (q) Share-based payments *continued*

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

#### (r) Earnings per share

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

#### (s) Lease payments

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### (t) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

#### (u) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### 3. Segment information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Information reported to the Group's Executive Chairman for the purposes of resource allocation and assessment of performance is focused on key business segments. The Group's reportable segments under AASB 8 are therefore as follows:

- Investments
- Geothermal Power

The Investment segment provides administration support and is responsible for the investment activities of the Group. The Geothermal segment located in the US and UK manages the geothermal power activities of the Group.

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies.

(i) The following is an analysis of the Group's revenue and results by reportable operating segments:

	Segment revenue		Segment profit/(loss)	
	2012 \$	2011 \$	2012 \$	2011 \$
<b>Continuing operations</b>				
Investments	199,152	—	(5,346,830)	4,365,539
Geothermal Power	4,677,568	4,047,090	(2,561,947)	(2,667,249)
Total of all Segments	4,876,720	4,047,090	(7,908,777)	1,698,290
<b>Unallocated items</b>				
Share of profit/(loss) of associate			460,000	(2,245,578)
Total loss before tax			(7,448,777)	(547,288)
Exchange reserve arising on translation of foreign operations			(213,957)	276,653
Gain/(loss) on available-for-sale investments taken to equity			667,603	536,308
<b>Total comprehensive income for the period</b>			<b>(6,995,131)</b>	<b>265,673</b>

The segment revenue reported above represents the revenue generated from external customers. There were no intersegment sales in the current year (2011: nil)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment loss represents the loss incurred by each segment without the allocation of share of losses of associate. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

(ii) Segment assets

	2012 \$	2011 \$
Investments	13,828,329	16,254,340
Geothermal Power	1,947,952	1,250,731
Total segment assets	15,776,281	17,505,071
Unallocated assets	1,000,000	—
<b>Total assets</b>	<b>16,776,281</b>	<b>17,505,071</b>



# Notes to the Financial Statements *continued*

## 3. Segment information *continued*

### (iii) Segment liabilities

	2012 \$	2011 \$
Investments	4,843,260	1,013,096
Geothermal Power	1,263,930	1,142,291
	<b>6,107,190</b>	<b>2,155,387</b>

### (iv) Geographical information

The Group operates in these principal geographical areas. Australia (country of domicile), UK and the USA.

	Revenue from external customers		Non-current assets	
	2012 \$	2011 \$	2012 \$	2011 \$
Australia	199,152	–	9,731,922	1,142,443
UK	–	–	1,118,890	179,658
USA	4,677,568	4,047,090	343,104	8,387
	<b>4,876,720</b>	<b>4,047,090</b>	<b>11,193,916</b>	<b>1,330,488</b>

## 4. Revenue

	Consolidated	
	2012 \$	2011 \$
Engineering services	3,684,432	4,047,090
License fee	992,736	–
Equipment sales	199,152	–
	<b>4,876,720</b>	<b>4,047,090</b>

All revenue relates to continuing operations.

## 5. Finance costs

	Consolidated	
	2012 \$	2011 \$
Interest and expenses - related parties	60,237	328,412
Interest - other	7,183	30,462
	<b>67,420</b>	<b>358,874</b>

Weighted average rate of funds borrowed is 10% (2011: 9.3%).

## 6. Loss for the year

### (a) Gains and losses

Loss for the year has been arrived at after crediting/(charging) the following gains and losses:

	Consolidated	
	2012	2011
	\$	\$
Gain on disposal of investments classified as available for sale	568,929	77,911
Research and development recovery	345,172	–
Interest income	177,118	217,966
Gain on debt settled	–	354,109
Net foreign exchange (losses)/gains	374,445	(735,123)
	<b>1,465,664</b>	<b>(85,137)</b>

### (b) Other expenses

Loss for the year includes the following expenses:

	Consolidated	
	2012	2011
	\$	\$
Rental expenses	306,715	204,387
Depreciation of plant and equipment	160,611	96,495
Amortisation of intangibles	46,670	17,800
Bad debts	–	45,462
Consultants expenses recognized as share based payments	–	444,451
Employee benefit expense:		
Defined contribution plans	94,191	57,584
Share based payments (note 35 (i))	(101,388)	1,456,695
Salaries and wages	3,455,693	1,848,828
	<b>3,962,492</b>	<b>4,171,702</b>

## 7. Income taxes

The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:

	Consolidated	
	2012	2011
	\$	\$
Loss before tax from continuing operations	(7,448,777)	(547,288)
Income tax benefit calculated at 30%	(2,234,633)	(164,186)
Effect of expenses that are not deductible in determining taxable income	967,069	479,026
Effect of temporary differences	(996,587)	(1,865,131)
Effect of deferred tax losses not brought to account	2,264,151	1,550,291
<b>Income tax credit recognized in profit or loss</b>	<b>–</b>	<b>–</b>

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

## Notes to the Financial Statements *continued*

### 7. Income taxes *continued*

#### Unrecognised deferred tax balances

	Consolidated	
	2012	2011
	\$	\$
The following deferred tax assets have not been brought to account:		
- tax losses - revenue	7,424,638	5,229,809
- tax losses - capital	400,095	599,237
	<b>7,824,733</b>	<b>5,557,822</b>

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future tax profit will be available against which the Group can utilise the benefits there from.

#### Recognised deferred assets and tax liabilities

	Consolidated	
	2012	2011
	\$	\$
The following deferred tax balances have been brought to account:		
Deferred tax assets		
- Investments	853,325	1,255,551
- Provisions	137,401	91,187
Deferred tax liabilities		
- Deferred revenue	(90,777)	(222,967)
- Investments	(886,660)	(1,110,132)
- Provision for bad debt	(13,289)	(13,639)
	<b>—</b>	<b>—</b>

### 8. Trade and other receivables: current

	Consolidated	
	2012	2011
	\$	\$
Trade receivables	1,596,176	778,901
Goods and services tax recoverable	66,049	31,020
Other receivables	58,669	87,742
Receivables from associates (note 32)	152	2,746,519
	<b>1,721,046</b>	<b>3,644,182</b>

The average credit period is 30 days after end of the month in which the invoice is raised.

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

## 9. Other financial assets: current

	Consolidated	
	2012	2011
	\$	\$
<b>Financial assets carried at fair value through profit or loss (FVTPL)</b>		
Held for trading derivatives that are not designated in hedge accounting relationships (i)	–	53,498
Held for trading non-derivative financial assets (ii)	100,336	248,835
	<b>100,336</b>	<b>302,333</b>

The fair values of the financial assets were determined as follows:

- (i) The fair value of the options held in listed entities has been determined using the Black-Scholes option pricing method.
- (ii) The fair value of the share has been determined with reference to quoted market prices.

## 10. Non-Current assets held for sale

	Consolidated	
	2012	2011
	\$	\$
Investments in listed entities (i)	3,695,118	7,005,057
	<b>3,695,118</b>	<b>7,005,057</b>

- (i) The fair value has been determined with reference to quoted market price.

The Group intends to dispose its holding in non-core investments in the next 12 months. Impairment loss was recognised at 30 June 2012. Refer subsequent event note 30(ii) regarding the sale of majority of the investments.

## 11. Trade and other receivables: non-current

	Consolidated	
	2012	2011
	\$	\$
Rental bond	57,617	34,412
Receivable other (i)	957,033	–
	<b>1,014,650</b>	<b>34,412</b>

- (i) Relate to option payment and associated cost related to the acquisition of Tuzla project which is expected to be completed in the new year.

## 12. Assets classified as available-for-sale: non-current

	Consolidated	
	2012	2011
	\$	\$
Investments in listed entities (i)	4,242,770	946,495
Investments in unlisted entities	1,000,000	–
	<b>5,242,770</b>	<b>946,495</b>

- (i) The fair value has been determined with reference to quoted market prices.

# Notes to the Financial Statements *continued*

## 13. Investments accounted for using the equity method

			Consolidated	
			2012	2011
			\$	\$
Reconciliation of movement in investments accounted for using the equity method:				
Balance at 1 July 2011			–	566,178
Reclassification as asset held for sale			–	(507,863)
Additional investment in associate			–	2,187,263
Share of profits/(losses)			–	(2,245,578)
Shares in Wasabi held by associate			460,000	–
Shares in Wasabi reclassified as treasury shares (note 24.1)			(460,000)	–
Partial sale of shares in Wasabi			9,200	–
<b>Balance at 30 June 2012</b>			<b>9,200</b>	<b>–</b>
Ownership interest				
Name of entity	Country of incorporation	Principal activity	2012	2011
			%	%
<b>Associates</b>				
Aqua Guardian Group (i)	Australia	Water conservation	–	47.5
Exergy Inc	USA	Investment	46.0	46.0

(i) Aqua Guardian Group became a subsidiary on 7 February 2012 as a result of the Company increasing its share holding to 79.20%. This resulted in again on derecognition of an associate \$1,323,000.

Summarised financial information in respect of the Group's associates is set out below:

			Consolidated	
			2012	2011
			\$	\$
<b>Financial position:</b>				
Total assets			833,000	2,034,226
Total liabilities			–	(2,936,120)
<b>Net assets</b>			<b>833,000</b>	<b>(901,894)</b>
<b>Group's share of associates' net assets</b>			<b>383,180</b>	<b>(428,400)</b>
<b>Financial performance:</b>				
<b>Total revenue</b>			<b>1,000,000</b>	<b>5,253,874</b>
Total profit/(loss) for the year before tax			1,000,000	(7,488,874)
Income tax expense			–	–
Net profit/(loss) for the year			1,000,000	(7,488,874)
<b>Group's share of associate's profit/(loss)</b>			<b>460,000</b>	<b>(2,245,578)</b>

### Dividends received from associates

No dividends were received during the year (2011: Nil) from its associate.

### Commitments

The Group's share of operating leases of associates is disclosed in note 26.



## 14. Property, plant and equipment

	Consolidated		
	Lease improvements	Plant and equipment at cost	Total
	\$	\$	\$
<b>Gross carrying amount</b>			
Balance at 1 July 2010	152,135	63,998	216,133
Additions	42,755	43,639	86,394
Disposals	—	(17,681)	(17,681)
<b>Balance at 1 July 2011</b>	<b>194,890</b>	<b>89,956</b>	<b>284,846</b>
Additions	—	24,024	24,024
Adjustment for acquisition of subsidiary	—	500,275	500,275
Disposals	—	(1,873)	(1,873)
<b>Balance at 30 June 2012</b>	<b>194,890</b>	<b>612,382</b>	<b>807,272</b>
<b>Accumulated depreciation</b>			
Balance at 1 July 2010	16,597	19,512	36,109
Disposals	—	(17,681)	(17,681)
Depreciation expense	86,399	10,096	96,495
<b>Balance at 1 July 2011</b>	<b>102,996</b>	<b>11,927</b>	<b>114,923</b>
Disposals	—	(746)	(746)
Depreciation expense	88,219	72,392	160,611
<b>Balance at 30 June 2012</b>	<b>191,215</b>	<b>83,573</b>	<b>274,788</b>
<b>Net book value</b>			
<b>As at 30 June 2011</b>	<b>91,894</b>	<b>78,029</b>	<b>169,923</b>
<b>As at 30 June 2012</b>	<b>3,675</b>	<b>528,809</b>	<b>532,484</b>

Aggregate depreciation allocated, which is recognised as an expense during the year:

	Consolidated	
	2012 \$	2011 \$
Lease improvements	88,219	86,399
Plant and equipment	72,392	10,096
	<b>160,611</b>	<b>96,495</b>

# Notes to the Financial Statements *continued*

## 15. Capital Work In Progress

	Consolidated	
	2012	2011
	\$	\$
Construction cost incurred to date (i)	377,962	–
	<b>377,962</b>	<b>–</b>

(i) The above cost relate to reconstruction of Huzavik geothermal plant. On completion the plant is expected to generate income on a monthly basis.

## 16. Goodwill

	Consolidated	
	2012	2011
	\$	\$
Cost recognised from business combination occurring during the year (note 36)	2,824,674	–
	<b>2,824,674</b>	<b>–</b>

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses ten year cash flow projections and a discount rate of 20%. The directors believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

## 17. Intangibles

	Consolidated		
	Capitalised development	Patent (i)	Total
	\$	\$	\$
<b>Gross carrying amount</b>			
Balance at 1 July 2010	–	227,471	227,471
Balance at 30 June 2011	–	227,471	227,471
Costs incurred during the year	168,464	–	168,464
Adjustment for acquisition of subsidiary	–	890,724	890,724
<b>Balance at 30 June 2012</b>	<b>168,464</b>	<b>1,118,195</b>	<b>1,286,659</b>
<b>Accumulated amortisation and impairment</b>			
Balance at 1 July 2010	–	30,013	30,013
Amortisation Expense	–	17,800	17,800
Balance at 1 July 2011	–	47,813	47,813
Amortisation expense	–	46,670	46,670
<b>Balance at 30 June 2012</b>	<b>–</b>	<b>94,483</b>	<b>94,483</b>
<b>Net book value</b>			
As at 30 June 2011	–	179,658	179,658
<b>As at 30 June 2012</b>	<b>168,464</b>	<b>1,023,712</b>	<b>1,192,176</b>

(i) The costs relate to worldwide patents held by Global Geothermal on Kalina Cycle® technology and AquaArmour™ patents held by Aqua Guardian Group.

## 18. Trade and other payables – current

	Consolidated	
	2012	2011
	\$	\$
Trade payables (i)	2,607,590	795,283
Deferred income (ii)	–	365,570
	<b>2,607,590</b>	<b>1,160,853</b>

(i) Payment terms for the Company and Consolidated entity during the current year and comparative period average 30 days.

(ii) Deferred income relate to engineering services and training not yet provided against income received.

## 19. Borrowings

	Consolidated	
	2012	2011
	\$	\$
Loans from:		
- Other entities - secured (i) (ii)	497,745	–
- Related parties - unsecured (i)	2,526,681	446,155
	<b>3,024,426</b>	<b>446,155</b>
Disclosed in the financial statements as:		
Current borrowings	3,024,426	446,155
Non-current borrowings	–	–
	<b>3,024,426</b>	<b>446,155</b>

(i) Interest is payable at 10% per annum.

(ii) Secured over held for trading investments and certain non-current assets held for sale.

## 20. Provisions

	Consolidated	
	2012	2011
	\$	\$
Employee benefits - current	172,585	170,725
Employee benefits - non-current	–	–
	<b>172,585</b>	<b>170,725</b>

## 21. Trade and other payables: Non-current

	Consolidated	
	2012	2011
	\$	\$
Deferred income (i)	302,589	377,654
	<b>302,589</b>	<b>377,654</b>

(i) Deferred income relate to engineering services and training not yet provided against income received.

# Notes to the Financial Statements *continued*

## 22. Issued capital

	Consolidated	
	2012	2011
	\$	\$
Fully paid ordinary shares		
<b>30 June 2012: 2,453,273,052 (30 June 2011: 2,195,472,928)</b>	<b>51,404,080</b>	<b>48,362,897</b>

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

### 22.1 Ordinary shares

	2012		2011	
	No.	\$	No.	\$
Balance at beginning of year	2,195,472,928	48,362,897	1,425,182,451	34,125,003
Exercise of options	207,800,124	2,078,001	182,012,856	1,969,948
Issue of shares	50,000,000	1,000,000	588,277,621	13,633,133
Share issue costs	—	(36,818)	—	(1,365,187)
<b>Balance at end of financial year</b>	<b>2,453,273,052</b>	<b>51,404,080</b>	<b>2,195,472,928</b>	<b>48,362,897</b>

Ordinary shares carry one vote per share and carry the right to dividends.

## 23. Options

### 23.1 Options

	2012	2011
	No.	No.
Balance at beginning of the year	405,370,308	482,158,164
Issue of options	—	104,650,000
Exercise of options	(207,800,124)	(181,447,856)
Options expired	(42,791,255)	—
Options forfeited	(5,750,000)	—
<b>Balance at end of financial year</b>	<b>149,028,929</b>	<b>405,370,308</b>

### 23.2 Options issued in subsidiary

	2012	2011
	No.	No.
Balance at the beginning of the year	—	450,000
Subdivided 1 to 5	—	—
Exercised during the year	—	—
Cancelled during the year	—	(450,000)
<b>Balance at end of financial year</b>	<b>—</b>	<b>—</b>

## 24. Reserves

	Consolidated	
	2012	2011
	\$	\$
Treasury shares	(450,800)	–
Investment revaluation reserve	1,358,295	690,692
Foreign currency translation reserve	(92,578)	121,379
Share based payment reserve	3,556,953	3,658,341
Other reserve	(4,331,987)	(3,171,993)
	<b>(39,883)</b>	<b>1,298,419</b>

### 24.1 Treasury shares

	Consolidated	
	2012	2011
	\$	\$
Value of shares in Wasabi Energy Ltd (i)	(450,800)	–
	<b>(450,800)</b>	<b>–</b>

(i) The above represents the value of Wasabi Energy Ltd shares held by Exergy Inc an associate.

### 24.2 Investment revaluation reserve

	Consolidated	
	2012	2011
	\$	\$
Balance at beginning of year	690,692	154,384
Valuation gain/(loss) recognised	600,266	536,308
Cumulative loss reclassified to profit or loss on impairment of available for sale financial asset	579,896	–
Cumulative gain reclassified to profit or loss on sale of available for sale financial asset	(512,559)	–
<b>Balance at end of year</b>	<b>1,358,295</b>	<b>690,692</b>

The investments revaluation reserve represents accumulated gains and losses arising on the revaluation of available-for-sale (AFS) financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

### 24.3 Foreign currency translation reserve

	Consolidated	
	2012	2011
	\$	\$
Balance at beginning of year	121,379	(112,824)
Exchange differences arising on translating the net assets of foreign operations	(213,957)	234,203
<b>Balance at end of year</b>	<b>(92,578)</b>	<b>121,379</b>

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.



# Notes to the Financial Statements *continued*

## 24. Reserves *continued*

### 24.4 Share based payments reserve

	Consolidated	
	2012	2011
	\$	\$
Balance at beginning of year	3,658,341	2,356,886
Options forfeited during the year	(101,388)	–
Options exercised during the year	–	(102,593)
Recognised during the year	–	1,404,048
<b>Balance at end of year</b>	<b>3,556,953</b>	<b>3,658,341</b>

The share based payments reserve arises on the grant of options to directors and employees under the share plan. Amounts are recognised in accordance with note 2(q). Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share based payment to employees is made in note 35 to the financial statements.

### 24.5 Other reserve

	Consolidated	
	2012	2011
	\$	\$
Balance at beginning of year	(3,171,993)	(2,099,334)
Difference arising on acquisition of remaining non-controlling interest in Global Geothermal and further non-controlling interest in Aqua Guardian Group	(1,159,994)	(1,072,659)
<b>Balance at end of year</b>	<b>(4,331,987)</b>	<b>(3,171,993)</b>

The other reserves represent excess consideration paid over the value of the non-controlling interest of Global Geothermal acquired during the year.

### 24.6 Non-controlling interest

	Consolidated	
	2012	2011
	\$	\$
Balance at beginning of year	(129,787)	(175,435)
Movement in investments revaluation reserve	291,795	–
Share of loss for the year	(129,738)	(100,376)
Movement in share of capital raising costs	(6,486)	–
Movement in foreign exchange values	–	152,269
Recognition of new non controlling interest via acquisition	579,641	–
Adjustment for (increase)/decrease in controlling interest	129,787	(6,245)
<b>Balance at end of year</b>	<b>735,212</b>	<b>(129,787)</b>

## 25. Accumulated losses

	Consolidated	
	2012	2011
	\$	\$
Balance at beginning of year	(34,181,845)	(33,734,933)
Net profit/(loss) attributable to members of the parent entity	(7,319,039)	(446,912)
<b>Balance at end of year</b>	<b>(41,500,884)</b>	<b>(34,181,845)</b>

## 26. Commitments

### (a) Operating leases

These obligations are not provided for in the financial report and are payable.

	Consolidated	
	2012	2011
	\$	\$
Non-cancellable operating rentals are as follows:		
- Not longer than 1 year	268,616	190,345
- Longer than 1 year and not longer than 5 years	593,247	87,919
- Longer than 5 years	—	—
	<b>861,863</b>	<b>278,264</b>
<b>Group's share of associates operating leases</b>		
Non-cancellable operating rentals are as follows:		
- Not longer than 1 year	3,567	12,868
- Longer than 1 year and not longer than 5 years	—	—
- Longer than 5 years	—	—
	<b>3,567</b>	<b>12,868</b>

# Notes to the Financial Statements *continued*

## 27. Subsidiaries

		Ownership interest	
Name of entity	Country of incorporation	2012 %	2011 %
Parent entity			
Wasabi Energy Limited	Australia		
Subsidiaries			
Wasabi Technologies Pty (i) Ltd	Australia	100	100
Evolution Energy Pty Ltd (i)	Australia	50	50
Aqua Guardian Group Ltd (i) (ii)	Australia	79.20	47.50
Global Geothermal Limited (i)	United Kingdom	100	97.62
Its wholly owned Group entity being			
Recurrent Engineering LLC (i)	USA	100	100
Global Geothermal Husavik Limited	United Kingdom	100	100
Wasabi Investments UK Limited (i)	United Kingdom	100	100
Its wholly owned Group entity being			
Imparator Green Energy Plc (i)	United Kingdom	100	100
Imparator Enerji Limited (i)	Turkey	100	100

(i) None of these entities are part of the tax consolidation group.

(ii) Previously classified as investment in associate.

## 28. Cash and cash equivalents

	Consolidated	
	2012	2011
	\$	\$
<b>Cash and bank balances</b>	<b>72,105</b>	<b>5,223,011</b>

### Reconciliation of profit/(loss) for the period to net cash flows from operating activities

	Consolidated	
	2012	2011
	\$	\$
Loss for the year	(7,448,777)	(547,288)
(Profit)/loss on disposal of financial assets	(568,929)	(77,911)
Fair value (gains)/losses on options	24,318	(1,414,056)
Gain on derecognition of an associate	(1,323,700)	–
Change in fair value (gains)/losses of financial assets	148,500	(8,134,181)
Share of associates' (profit)/loss	(460,000)	2,245,578
Depreciation of property, plant and equipment	207,281	114,295
Bad debts	–	45,462
Foreign exchange (gain)/losses	(463,671)	735,123
Expense/(reversal) recognised in respect of equity-settled share-based payment	(101,388)	1,901,146
Gain on debt settled	–	(354,109)
Impairment of investment classified as held for sale	3,761,539	–
Capitalised costs	(194,766)	–
Interest income received and receivable	(177,118)	(292,870)
Changes in net assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other receivables	(913,294)	(559,876)
Movement in inventory	309	–
Increase/(decrease) in liabilities:		
Trade and other payables	565,767	106,661
Provisions	(21,012)	169,561
<b>Net cash from operating activities</b>	<b>(6,964,941)</b>	<b>(6,062,465)</b>

### Non-cash transactions

During the year the company issued 50,000,000 fully paid ordinary shares at \$0.02 to acquire remaining ordinary shares of Global Geothermal Limited not held by the company.

## Notes to the Financial Statements *continued*

### 29. Financial instruments

#### (a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

The Group's capital structure consists of deposits with banks and loans from related parties or other entities (refer note 19).

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, by maintaining a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares, re-negotiate intercompany loan arrangements with its parent or sell assets to provide cash flow.

The Group monitors capital on the basis of the gearing ratio, however there are no external borrowings as at balance date. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Risk management policies and procedures are established with regular monitoring and reporting.

#### (b) Financial Risk Management

The Company has exposure to various risks from the use of financial instruments. The Company's principal financial instruments comprise cash, receivables, payables and other financial assets and liabilities. This note presents information about the Company's exposure to risk from the use of financial instruments. Further quantitative disclosures are included throughout this financial report.

Financial risks including credit risk, liquidity risk, and market risk (interest rate risk, commodity risk and foreign currency risk) are managed such to maintain an optimal capital structure. The Company does not enter into derivative transactions to manage financial risks.

#### (c) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral, where appropriate. The Group's exposure to credit risk at balance date in relation to each class of financial assets is the carrying amount of the assets as indicated in the balance sheet. Cash and term deposits are only made with selected counterparties with a strong Standard & Poors long term rating. Adherence to the treasury policy is monitored on a monthly basis.

#### (d) Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity involves monthly cash flow forecasting such to ensure that sufficient funds are always available to undertake planned activities.

##### *Maturity profile of financial instruments*

The following tables detail the Company and Group's contractual maturity for its non-derivative financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Group	Weighted Average Effective Interest Rate	Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$	5+ years \$
<b>2012</b>						
<b>Financial assets</b>						
Trade and other receivables		563,468	259,531	906,446	—	—
Trade and other receivables - Related party		—	152	—	—	—
<b>Financial liabilities</b>						
Secured loan	10%	—	497,745	—	—	—
Unsecured loan related party	10%	—	—	2,526,681	—	—
Trade and other payables		1,094,461	940,037	573,092	—	—

Group	Weighted Average Effective Interest Rate	Less than 1 month \$	1-3 months \$	3 months to 1 year \$	1-5 years \$	5+ years \$
<b>2011</b>						
<b>Financial assets</b>						
Trade and other receivables		731,987	140,836	24,390	–	–
Trade and other receivables - Related party		–	26,072	20,579	–	–
Loan receivable		–	–	–	–	–
Related party	10%	–	–	2,700,318	–	–
<b>Financial liabilities</b>						
Unsecured loan related party	10%	–	–	446,155	–	–
Trade and other payables	–	592,841	66,150	136,292	–	–

(e) **Fair value of financial instruments carried at amortised cost**

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

	30 June 2012		30 June 2011	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
<b>Financial assets</b>				
- Trade and other receivables	1,720,894	1,720,894	897,213	896,470
- Trade and other receivables - related parties	152	152	46,651	46,234
- Trade and other receivables-non-current	1,014,650	1,014,650	34,412	34,412
- Loans to related parties	–	–	2,700,318	2,829,210
	2,735,696	2,735,696	3,678,594	3,806,326
<b>Financial liabilities</b>				
- Trade and other payables	2,607,590	2,607,590	795,283	793,224
- Loans from related parties	2,526,681	2,526,681	446,155	467,450
- Loans from other parties	497,745	497,745	–	–
	5,632,016	5,632,016	1,241,438	1,260,674

The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

(f) **Fair value of financial assets and liabilities**

*On-balance sheet*

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Group approximates their carrying amounts.

The net fair value of other monetary financial assets and liabilities is based upon discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

The Company's and the Group's exposure to interest rate risk is set out below.



# Notes to the Financial Statements *continued*

## 29. Financial instruments *continued*

### (f) Fair value of financial assets and liabilities *continued*

#### *Interest rate sensitivity analysis*

##### Financial assets

As at 30 June 2012, the Group held \$72,105 (2011: \$5,223,011) in cash and cash equivalents with interest revenue of \$34,924 (2011: \$217,966) for the year then ended. A sensitivity of 1.0% (2011: 1.5%) has been selected as this is considered reasonable given the current interest rate and prior year movements of interest rate in the market. A 1.0% (2011: 1.5%) increase in the cash rate would have resulted in a \$26,283 (2011: \$40,865) increase in interest revenue and equity. A 1.5% (2011: 1.5%) decrease in the cash rate would have resulted in a \$26,283 (2011: \$40,865) decrease in interest revenue and equity.

##### Financial liabilities

As at 30 June 2012, the Group borrowings amounted to \$3,024,426 (2011: \$479,013) with interest expenses of \$62,982 (2011: \$357,662) for the year then ended. A sensitivity of 1.0% (2011: 1.5%) has been selected as this is considered reasonable given the current interest rate and prior year movements of interest rate in the market. A 1.0% (2011: 1.5%) increase in the cash rate would have resulted in a \$6,298 (2011: \$52,296) increase in interest expenses. A 1.0% (2011: 1.5%) decrease in the cash rate would have resulted in a \$6,298 (2011: \$52,296) decrease in interest expenses.

### (g) Other price risks

The Group is exposed to equity price risks arising from equity instruments. Equity instruments are held for strategic and for trading purposes. The Group does not actively trade these investments.

#### *Equity price sensitivity analysis*

At 30 June 2012, if the equity prices had been 5% higher or lower:

Other financial assets subject to equity price risk

	Consolidated			
	2012		2011	
	\$		\$	
Options - at fair value (note 9)	—		53,498	
Held for trading - at fair value (note 9)	100,336		248,835	
Non-current assets held for sale (note 10)	3,695,118		7,005,057	
Available for sale - shares at fair value (note 12)	5,242,770		946,495	
	-5%	-5%	+5%	+5%
	2012	2011	2012	2011
	\$	\$	\$	\$
Change in loss	(167,371)	(14,500)	167,371	14,500
Change in reserves	(233,845)	(367,788)	233,845	367,788

### (h) Foreign currency risk management

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The consolidated entity manages foreign currency risk by minimizing the amounts of foreign currency required and buying foreign currency only at the time it is required. Trade payables and trade receivables, secured borrowings and loans to subsidiary listed below are denominated in United States Dollars (USD) and British Pounds (GBP). Average rate applied during the year \$1.03 (2011: \$0.99) and reporting date spot rate \$1.02 (2011: \$1.06) for USD and average rate applied during the year £0.65 (2011: NA) and reporting date spot rate £0.65 (2011: NA) for GBP.

Amounts of foreign currency in creditors

	Consolidated	
	2012	2011
	\$	\$
Trade Payables (USD)	(862,259)	(518,376)
Trade Receivables (USD)	1,431,923	774,274
Trade Payable (GBP)	(73,611)	–
	496,653	255,898

Movement in USD against AUD

	-20% 2012 \$	-20% 2011 \$	+20% 2012 \$	+20% 2011 \$
Change in gain/(loss) - USD	(91,909)	63,974	137,863	42,650
Change in gain/(loss) - GBP	12,268	–	(18,403)	–

The sensitivity of 20% has been selected as this considered reasonable given the current level of both short term and long term exchange movement for these currencies and the above analysis assumes all other variables remain constant.

Gearing ratio

The Group's Board reviews the capital structure on an annual basis. The gearing ratio at year end was as follows:

	Consolidated	
	2012	2011
	\$	\$
<b>Financial assets</b>		
Debt (i)	3,024,426	446,155
Cash and cash equivalents	(72,105)	(5,223,011)
Net debt	2,952,321	–
Equity (ii)	10,678,091	15,349,684
Net debt to equity ratio	27.6%	–

(i) Debt is defined as long- and short-term borrowings, as detailed in note 19.

(ii) Equity includes all capital and reserves.

(i) **Three tier hierarchy of fair value**

*Fair value measurements recognised in the statement of financial position*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

# Notes to the Financial Statements *continued*

## 29. Financial instruments *continued*

### (j) Three tier hierarchy of fair value

	Consolidated			30 June 2012
Instrument	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial Assets at FVTPL</b>				
Quoted equities	88,001	—	—	88,001
Unquoted equities	—	—	1,012,335	1,012,335
<b>Available-for-sale financial assets</b>				
Quoted equities	7,937,888	—	—	7,937,888
<b>Total</b>	<b>8,025,889</b>	<b>—</b>	<b>1,012,335</b>	<b>9,038,224</b>

	Consolidated			30 June 2011
Instrument	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial Assets at FVTPL</b>				
Derivative financial assets	—	53,498	—	53,498
Quoted equities	236,500	—	—	236,500
Unquoted equities	—	—	12,335	12,335
<b>Available-for-sale financial assets</b>				
Quoted equities	7,951,552	—	—	7,951,552
<b>Total</b>	<b>8,188,052</b>	<b>53,498</b>	<b>12,335</b>	<b>8,253,885</b>

Of the total gains or losses for the period included in profit or loss \$3,934,358 (2011: \$4,038,031) relates to asset-backed securities held at the end of the reporting period.

All gain and losses from available for sale investments included in other comprehensive income relate to asset-backed securities held at the end of the reporting period and are reported as changes of 'Investments revaluation reserve' (see note 24.2).

There has been no movement in level 3 since their acquisition.

## 30. Subsequent Event

Except as noted below, there has not been any matter or circumstance that has arisen since end of financial period that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future financial periods.

- (i) On 2 July 2012 the company raised \$4,695,349 net of capital raising costs from a private placement of 300 million fully paid ordinary shares in the company.
- (ii) On 15 August 2012 the company sold 275 million ordinary shares of Australian Renewable Fuels Ltd shares to Lignol Energy Corporation (Lignol) a Canadian based advanced biofuels company for a consideration of C\$4,265,770 (A\$4,129,097). The consideration was cash of C\$500,000 (A\$483,980), 19 million common shares in Lignol and a 10-month secured convertible debenture for C\$2,245,770 (A\$2,173,817) convertible into Lignol common shares at C\$0.15 per share.
- (iii) On 16 August 2012 the company agreed to increase its holding in AAP Carbon Holdings Ltd (AAP Carbon) from 25% to 62.5%. Under the terms of the transaction, AAP Carbon will issue 15.2 million new shares and 4.7 million warrants exercisable at A\$0.10 as consideration for an exclusive Kalina Cycle® license (excluding cement and lime industry) to be used in Sub Sahara Africa region.
- (iv) On 17 August 2012 the company announced the conclusion of the rights issue with an issue of 224 million fully paid ordinary shares for a consideration of \$3,745,412 net of costs.

### 31. Key management personnel compensation

#### Details of Key management personnel

Key management is defined as directors and senior management as referred to in the remuneration report.

(i) *Key management personnel compensation*

The aggregate compensation made to directors and other members of key management personnel of the company and the Group is set out below:

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	1,852,089	1,331,351
Post-employment benefits	60,075	40,875
Share-based payments	—	588,500
	<b>1,912,164</b>	<b>1,960,726</b>

(ii) *Key management personnel equity holdings*

Fully paid ordinary shares of Wasabi Energy Limited

	<b>Balance at 1 July 2011 No.</b>	<b>Granted as compensation No.</b>	<b>Received on exercise of rights No.</b>	<b>Net other change No. (i)</b>	<b>Balance at 30 June 2012 No.</b>
<b>2012</b>					
<b>Directors</b>					
J. Byrne	213,784,953	—	—	4,000,000	217,784,953
S. Morris	33,057,338	—	—	(3,000,000)	30,057,338
R. Reynolds	18,942,627	—	—	1,000,000	19,942,627
R. Vallender	5,106,438	—	—	—	5,106,438
M. Jacques	4,000,000	—	—	1,000,000	5,000,000
<b>Senior Management</b>					
D. Bettess (i)	4,500,000	—	—	700,000	5,200,000
N. Bleijendaal	—	—	—	—	—
B. Levy	8,500,000	—	—	—	8,500,000
A. Davey	157,106	—	52,000	—	209,106
K. Thurairosa	1,202,554	—	—	—	1,202,554

(i) Shares traded on the open market

# Notes to the Financial Statements *continued*

## 31. Key management personnel compensation *continued*

### Details of Key management personnel *continued*

#### (ii) Key management personnel equity holdings *continued*

Fully paid ordinary shares of Wasabi Energy Limited

	Balance at 1 July 2010 No.	Granted as compensation No.	Received on exercise of rights No.	Net other change No. (i)	Balance at 30 June 2011 No.
<b>2011</b>					
<b>Directors</b>					
J. Byrne	121,864,231	–	66,920,722	25,000,000	213,784,953
S. Morris	16,436,267	–	16,621,071	–	33,057,338
R. Reynolds	18,442,627	–	–	500,000	18,942,627
R. Vallender	5,106,438	–	–	–	5,106,438
M. Jacques	4,000,000	–	–	–	4,000,000
<b>Senior Management</b>					
D. Bettess	–	–	–	4,500,000	4,500,000
N. Bleijendaal	–	–	–	–	–
B. Levy	–	3,000,000	–	5,500,000	8,500,000
A. Davey	157,106	–	–	–	157,106
K. Thurairosa	953,425	–	–	249,129	1,202,554

(i) Shares traded on the open market.

No other key personnel hold or traded ordinary shares during the year.

Options of Wasabi Energy Limited

	Balance at 1 July 2011 No.	Granted as compensation No.	Market acquired (net) No.	Exercised/ (Expired) No.	Balance at 30 June 2012 No.	Balance vested at 30 June 2012 No.	Vested but not exercisable No.	Vested and exercisable No.	Rights vested during year No.
<b>2012</b>									
<b>Directors</b>									
J. Byrne	41,000,000	–	– (20,000,000)	–	21,000,000	–	–	21,000,000	–
S. Morris	2,128,929	–	–	–	2,128,929	–	–	2,128,929	–
R. Reynolds	10,000,000	–	–	–	10,000,000	–	–	10,000,000	–
R. Vallender	15,000,000	–	–	–	15,000,000	–	–	15,000,000	–
M. Jacques	10,000,000	–	–	–	10,000,000	–	–	10,000,000	–
<b>Senior Management</b>									
D. Bettess	15,000,000	–	–	–	15,000,000	–	–	15,000,000	–
N. Bleijendaal	15,000,000	–	–	–	15,000,000	–	–	15,000,000	–
B. Levy	5,000,000	–	–	–	5,000,000	–	–	5,000,000	–
A. Davey	8,000,000	–	–	–	8,000,000	–	–	8,000,000	–
K. Thurairosa	5,000,000	–	–	–	5,000,000	–	–	5,000,000	–

## Options of Wasabi Energy Limited

	Balance at 1 July 2010 No.	Granted as compensation No.	Market acquired (net) No.	Exercised/ (Expired) No.	Balance at 30 June 2011 No.	Balance vested at 30 June 2011 No.	Vested but not exercisable No.	Vested and exercisable No.	Rights vested during year No.
<b>2011</b>									
<b>Directors</b>									
J. Byrne	107,920,722	–	–	66,920,722	41,000,000	20,000,000	–	41,000,000	–
S. Morris	18,750,000	–	–	16,621,071	2,128,929	2,128,929	–	2,128,929	–
R. Reynolds	10,000,000	–	–	–	10,000,000	10,000,000	–	10,000,000	–
R. Vallender	15,000,000	–	–	–	15,000,000	10,000,000	–	15,000,000	–
M. Jacques	–	10,000,000	–	–	10,000,000	10,000,000	–	10,000,000	10,000,000
<b>Senior Management</b>									
D. Bettess	–	15,000,000	–	–	15,000,000	15,000,000	–	15,000,000	15,000,000
N. Bleijendaal	–	15,000,000	–	–	15,000,000	15,000,000	–	15,000,000	15,000,000
B. Levy	–	5,000,000	–	–	5,000,000	5,000,000	–	5,000,000	5,000,000
A. Davey	8,000,000	–	–	–	8,000,000	8,000,000	–	8,000,000	–
K. Thurairosa	–	5,000,000	–	–	5,000,000	5,000,000	–	5,000,000	5,000,000

All options issued to key management personnel were made in accordance with the provisions of the employee share plan.

During the financial year Nil options (2011: 7,871,071) were exercised by key management personnel.

Further details of the employee share plan and of options granted during the 2012 and 2011 financial years are contained in note 35 to the financial statements.

## 32. Related party transactions

### (a) Equity interests in related parties

#### *Equity interests in subsidiaries*

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 27 to the financial statements.

### (b) Equity interests in associates

Details of interests in associates are disclosed in note 13 to the financial statements.

### (c) Transactions with key management personnel

#### (i) *Key management personnel compensation*

Details of key management personnel compensation are disclosed in note 31 to the financial statements.

#### (ii) *Loans to key management personnel*

There were no loans to key management personnel during the financial year.

#### (iii) *Other transactions with key management personnel of the Group*

There were no other transactions with key management personnel of the Group during the financial year or in prior year except for the remaining loan of \$479,014 outstanding at 1 July 2011 was settled together with interest of \$16,024. Interest was charged at 10% per annum.

#### (iv) *Transactions with key management personnel of Wasabi Energy Limited and Global Geothermal Limited*

J. Byrne, S. Morris (resigned 28 August 2012), R. Reynolds, R. Vallender, M. Jacques, A. Davey, D. Bettess, N. Bleijendaal, K. Thurairosa and B. Levy are key management personnel of Wasabi Energy. Information regarding the individual key management personnel compensation is provided in the remuneration report section of the directors' report.

## Notes to the Financial Statements *continued*

### 32. Related party transactions *continued*

#### (d) Transactions with other related parties

*Transactions between Group and its related parties*

During the financial year, the following transactions occurred between the Company and its other related parties:

- During the year Aqua Guardian Group an associate until 7 February 2012, was advanced \$1,858,256 to that date. Interest received at 10% amounted to \$142,938.
- Loan and interest accrued to 7 February 2012 amounting to \$4,254,156 was converted to 83,083,120 fully paid ordinary in Aqua Guardian Group, thereby increasing its holding to 79.2%.
- During the year Arcourt Resources NL a company in which John Byrne is a director advanced \$2,481,010. Interest payable to 10% amounted to \$45,671.
- During the year the company received \$4,234 as management fee from Arcourt resources NL, a company in which John Byrne is a director.
- As at 30 June 2012, an amount of \$84 was outstanding from Arcourt Resources NL and \$68 was outstanding from East Coal Inc. John Byrne is a director in both companies.

#### (e) Parent entity

The parent entity in the Group is Wasabi Energy Limited.

### 33. Remuneration of auditors

	Consolidated	
	2012 \$	2011 \$
Audit and review of the financial report - Deloitte Touche, Tohmatsu	181,482	142,576
Other non-audit services		
- Related to AIM Listing	—	193,780
	<b>181,482</b>	<b>336,356</b>

	Consolidated	
	2012 \$	2011 \$
Preparation of financial report	20,790	30,330
Preparation of the tax return	45,560	95,680
	<b>66,350</b>	<b>126,010</b>

### 34. Earnings per share

	Consolidated	
	2012 Cents per share	2011 Cents per share
Basic earnings (loss) per share	(0.31)	(0.02)
Diluted earnings (loss) per share	(0.31)	(0.02)



**Basic earnings per share**

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2012 \$	2011 \$
Net Loss (i)	7,319,039	446,912

(i) Net Loss is the same amount as loss after tax in the statement of comprehensive income attributable to owners of the parent.

	2012 No.	2011 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,339,982,804	1,813,456,582

**Diluted Earnings (Loss) Per Share**

The options held by rights holders have not been included in the weighted average number of ordinary shares for the purposes of calculating diluted EPS as they do not meet the requirements for inclusion in AASB 133 "Earnings per Share". The rights are non-dilutive as they do not increase loss per share from continuing operations.

**35. Share-based payments**

During the financial year no options were issued to Directors and officers.

The following share-based payment arrangements were in existence during the current periods:

	Number of Options	Expiry date	Exercise price \$	Fair value at grant date \$
Tranche 1 (Grant date 25 Nov 2009)	42,128,929	30 Sep 2012	1.6 cents	1.3 cents
Tranche 2 (Grant date 19 Jan 2010)	8,000,000	30 Sep 2012	2.0 cents	1.0 cents
Tranche 3 (Grant date 29 Nov 2010)	10,000,000	30 Sep 2012	1.6 cents	1.1 cents
Tranche 4 (Grant date 20 Dec 2010)	30,000,000	30 Sep 2012	2.8 cents	1.0 cents
Tranche 5 (Grant date 25 Feb 2011)	48,150,000	24 Feb 2013	3.9 cents	1.8 cents

There were no options granted during the year.

Inputs into the model	Option series grant date				
	25 November 2009	19 January 2010	29 November 2010	20 December 2010	25 February 2011
Grant date share price	2.1 cts	1.8	2.5	2.8	4.4
Exercise price	1.6 cts	2.0	1.6	2.8	3.9
Expected volatility	14.59%	13.58%	8.81%	8.99%	9.01%
Performance right term	(i)	(i)	(i)	(i)	(i)
Dividend yield	—	—	—	—	—
Risk-free interest rate	6.5%	6.25%	5.12%	5.19%	5.20%
Option life	2 yrs, 10 mths	2 yrs, 8 mths	1yr, 10 mths	1 yr, 9 mths	2 yrs

(i) All options expire on the earlier of their expiry date or termination of the individual's employment. The Directors and employees are entitled to exercise their options and be issued with the shares anytime after vesting (subject to being in employment).

## Notes to the Financial Statements *continued*

### 35. Share-based payments *continued*

The following reconciles the outstanding options granted under the employee share plan at the beginning and end of the financial year:

	2012		2011	
	Number of rights	Weighted average exercise price cents	Number of rights	Weighted average exercise price cents
Balance at beginning of the financial year	154,778,929	2.74	58,000,000	1.30
Granted during the financial year	–	–	104,650,000	3.25
Exercised during the year	–	–	(7,871,071)	1.30
Forfeited during the financial year	(5,750,000)	3.25	–	–
Balance at end of the financial year (iii)	149,028,929	2.69	154,778,929	2.74
Exercisable at end of the financial year	149,028,929	2.69	154,778,929	2.74

(ii) **Exercised during the financial year**

During the financial year nil (2011: 7,871,071) options granted under the employee share option plan were exercised.

(iii) **Balance at the beginning of the financial year**

The share options outstanding at the beginning of the financial year had an exercise price of 2.74 cents and a weighted average remaining contractual life of 557 days.

(iv) **Balance at end of the financial year**

The share options outstanding at the end of the financial year had an exercise price of 2.69 cents, and a weighted average remaining contractual life of 183 days.

### 36. Business combination

On 7 February, 2012 Aqua Guardian Group (AGG) converted \$4,254,156 debt owing to Wasabi, by issuing 85,083,120 ordinary shares at 5 cents each in AGG. As a result of this Wasabi's holding in AGG increased from 47.5% to 79.2%. Further on the same day AGG consolidated the shares at 1 for every four on issue.

The following tables detail the book values of AGG assets and liabilities acquired and the estimated fair values of assets and liabilities. Pending finalisation of the company's determination of the fair value of the acquired net assets, the difference between the purchase price and the fair value of the acquired net assets will be allocated to goodwill. As permitted by AASB 3, all acquired assets and liabilities will be provisionally accounted for up to 12 months from acquisition date while the Company finalises its determination of the respective fair values and the identification of any further assets or liabilities acquired.

	Pre-acquisition carrying amounts (a) \$	Fair Value of adjustments (b) \$	I Values recognised on acquisition \$
Cash and receivables	172,657	–	172,657
Inventory	3,269	–	3,269
Property, Plant and Equipment	500,275	–	500,275
Patents	890,724	–	890,724
Investments	2,839,908	–	2,839,908
Trade and other payables and provisions	(1,074,013)	–	(1,074,010)
	<b>3,332,823</b>	<b>–</b>	<b>3,332,823</b>

**De-recognition of original Investment in AGG**

	\$
Fair value of previously-held interest	1,323,700
Less: carrying amount	—
<b>Anticipated gains/(losses) to be recognised in profit and loss</b>	<b>1,323,700</b>

**Recognition of Controlling Interest in AGG**

	\$
Fair value of consideration given for controlling interest	4,254,156
Fair value of non-controlling interest	579,641
Fair value of previously-held interest	1,323,700
Sub-total	6,157,497
Less fair value of net assets acquired	3,332,823
<b>Goodwill</b>	<b>2,824,674</b>

(a) Represents book values calculated in accordance with the accounting policies of AGG prior to acquisition by the company.

(b) There was no fair value adjustment for assets and liabilities acquired.

Included in the loss for the year is \$623,737 attributable to Aqua Guardian Group. Revenue for the period includes \$199,152. Had this business combination been effected on 1 July 2011, the loss attributable would have been \$1,705,421 and the revenue would have been \$407,780.

**37. Contingent liabilities**

As per an agreement entered by a subsidiary Aqua Guardian Group (AGG) with Venture DGM Pty Ltd (Venture), AGG is required to pay around \$412,500 being 50% of the revenue from Grampian Wimmera Malee Water Corporation (GWM Water) for the deployment of 22,000 Aqua Armour modules. In the event that the deployment is successful, the amount receivable from GWM Water is expected to be around \$825,000. However if the deployment is unsuccessful, then AGG is required to pay an additional \$140,000 for the first 250,000 modules manufactured by Venture. Furthermore, in the event the manufacturing agreement to produce modules ends with Venture, then AGG will be required to reimburse Venture the unamortized cost associated with the unused portion of the module, which at 30 June 2012 was estimated to be \$161,625.

# Notes to the Financial Statements *continued*

## 38. Parent entity information

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements.

Refer to note 3 for a summary of the significant accounting policies relating to the Group.

### Financial position

	30 June 2012 \$	30 June 2011 \$
<b>Assets</b>		
Current assets	13,609,919	19,525,419
Non-current assets	7,189,672	1,142,443
<b>Total assets</b>	<b>20,799,588</b>	<b>20,667,862</b>
<b>Liabilities</b>		
Current liabilities	4,151,711	1,013,096
Non-current liabilities	—	—
<b>Total liabilities</b>	<b>4,151,711</b>	<b>1,013,096</b>
<b>Equity</b>		
Issued capital	51,404,080	48,362,897
Retained earnings	(37,571,778)	(32,068,558)
Reserves		
Available for sale reserve	247,228	690,692
Equity settled employee benefits	2,568,347	2,669,735
<b>Total equity</b>	<b>16,478,877</b>	<b>19,654,766</b>

### Financial performance

	Year ended 30 June 2012 \$	Year ended 30 June 2011 \$
Loss for the year	(5,503,220)	(179,322)
Other comprehensive income	(443,464)	536,308
<b>Total comprehensive income</b>	<b>(5,946,684)</b>	<b>356,988</b>

### Contingent liabilities of the parent entity

The parent does not have any contingent liabilities at the end of the financial year.

### Commitments for the acquisition of property, plant and equipment by the parent entity

There were no commitments to acquire any property, plant and equipment by the parent at the end of the financial year.

## Directors' Declaration

The directors declare that:

- (a) in the directors' 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
- (b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity, and
- (d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295 (5) of the Corporations Act 2001.



**John Byrne**

Executive Director

Melbourne, 29 August 2012

## Declaration of Auditor Independence

**Deloitte.**

Deloitte Touche Tohmatsu  
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29 August 2012

The Board of Directors  
Wasabi Energy Limited  
Level 9, 175 Collins Street  
MELBOURNE VIC 3000

Dear Board Members

### **Wasabi Energy Limited**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Wasabi Energy Limited.

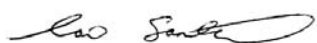
As lead audit partner for the audit of the financial statements of Wasabi Energy Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely,



DELOITTE TOUCHE TOHMATSU



Ian Sanders  
Partner  
Chartered Accountant

# Independent Auditor's Report

**Deloitte.**

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

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## Independent Auditor's Report to the members of Wasabi Energy Limited

### Report on the Financial Report

We have audited the accompanying financial report of Wasabi Energy Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the cash flow statement and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 25 to 67.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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



# Independent Auditor's Report *continued*

## Deloitte

### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Wasabi Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

### *Opinion*

In our opinion:

- (a) the financial report of Wasabi Energy Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 16 to 20 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Opinion*

In our opinion the Remuneration Report of Wasabi Energy Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Ian Sanders  
Partner  
Chartered Accountants  
Melbourne, 29 August 2012

# Additional Shareholder Information

Additional information required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report as at 4 September 2012.

## Twenty largest Shareholders

Rank	Name	Units	% of Units
1	JP Morgan Nominees Australia Limited	516,840,936	17.31% <sup>(i)</sup>
2	Nortrust Nominees Limited	239,818,200	8.03% <sup>* (i)</sup>
3	Chase Nominees Limited	97,300,060	3.26% <sup>* (i)</sup>
4	Nortrust Nominees Limited	96,763,700	3.24% <sup>* (i)</sup>
5	Arcourt Resources NL	92,876,062	3.11% <sup>(i)</sup>
6	HSBC Global Custody Nominee (UK) Limited	90,909,091	3.05% <sup>* (i)</sup>
7	Mr John Joseph Byrne + Mrs Maritza Ivonne Byrne	83,213,441	2.79%
8	Citicorp Nominees PTY Limited	64,660,683	2.17% <sup>*</sup>
9	Pershing Australia Nominees PTY Ltd	60,000,000	2.01%
10	Nutraco Nominees Limited	56,368,400	1.89% <sup>*</sup>
11	HSBC Custody Nominees (Australia) Limited	54,786,499	1.84%
12	Napier Holdings Services Limited	49,534,799	1.66%
13	Exergy WA Ltd Inc	49,000,000	1.64%
14	Hereford Securities & Management SA	45,106,438	1.51%
15	Credit Suisse Client Nominees (UK) Limited	45,000,000	1.51% <sup>*</sup>
16	M A O'Brien Medical Pty Ltd	44,045,037	1.48%
17	HSBC Global Custody Nominee (UK) Limited	43,540,909	1.46% <sup>*</sup>
18	Barclayshare Nominees Limited	39,374,578	1.32% <sup>*</sup>
19	Nortrust Nominees Limited	35,750,000	1.20% <sup>*</sup>
20	Bell Potter Nominees Ltd	33,355,882	1.12%

(i) Denotes substantial shareholders

\* Represents the shares held as depositary interests on the AIM market of the London Stock Exchange

## Additional Shareholder Information *continued*

### Distribution of shareholdings

Range	Total holders	Units	% of Issued
1 - 1,000	207	56,259	0.00
1,001 - 5,000	157	484,937	0.02
5,001 - 10,000	121	1,063,680	0.04
10,001 - 100,000	687	31,877,247	1.07
100,001 - 9,999,999,999	577	2,951,766,872	98.88
<b>Total</b>	<b>1,749</b>	<b>2,985,248,995</b>	<b>100.00</b>

The number of shareholders holding less than a marketable parcel is 767.

#### Voting Rights

All shares carry one vote per share without restriction.

#### On Market Buy-back

There is no current on market buy-back.

#### Restricted Securities

The Company does not have any restricted securities on issue.

# Corporate Directory

## WASABI ENERGY LIMITED

ABN 24 000 090 997

## REGISTERED OFFICE

Level 9 175 Collins Street  
Melbourne VIC 3000

P: +61 3 9663 7132

F: +61 3 9650 0066

W: [www.wasabienergy.com](http://www.wasabienergy.com)

## DIRECTORS

Mr. John Byrne (Executive Chairman)

Mr. Bob Reynolds (Director)

Mr. Robert Vallender (Director)

Dr. Malcolm Jacques (Director)

## COMPANY SECRETARY

Mr. Alwyn Davey

## SHARE REGISTRY

AUSTRALIA

Computershare Investor Services Pty Limited  
Yarra Falls, 452 Johnston Street  
Abbotsford VIC 3067

P: 1300 555 159

UNITED KINGDOM

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ  
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## AUDITOR

Deloitte Touche Tohmatsu

## EXCHANGES

Australian Securities Exchange Limited  
Level 3, 530 Collins Street  
Melbourne VIC 3000  
Australis

ASX code: WAS

London Stock Exchange plc  
10 Paternoster Square  
London EC4M 7LS  
United Kingdom

AIM code: WAS

OTC Markets  
304 Hudson Street, 2nd Floor  
New York, NY 10013  
USA

OTCQX code: WSBLV



[www.wasabienergy.com](http://www.wasabienergy.com)

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