Carbonxt Group Limited

ABN 59 097 247 464

Annual Report
Year Ended 30 June 2016

Contents **Page 2**

Directors' Report	3
Auditor's Independence Declaration	7
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Changes in Equity	10
Statement of Cash Flows	11
Contents on Notes to the Financial Statements	12
Directors' Declaration	38
Independent Auditor's Report to the Members	39

DIRECTORS' REPORT

Your directors present their report on the Company and its controlled entities ("the Group") for the financial year ended 30 June 2016.

Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Matthew Quinn - Chairman

Matthew was Managing Director of Stockland, Australia's largest diversified property group and a top 50 ASX listed company, from 2000 to 2013. He began his career in the United Kingdom as a Chartered Accountant and moved to Australia in 1987 with Price Waterhouse. Matthew was National President of the Property Council of Australia from 2003 to 2005, and a director of the Business Council of Australia in 2012. Matthew has a first class honours degree in Chemistry and Management Science from Imperial College, London and is an associate of the Royal College of Science.

Warren Murphy – Managing Director

Warren was previously Co-Head of the Australian Infrastructure & Project Finance Group and Head of Energy at Babcock & Brown based in the Sydney office. Warren led the development of Babcock & Brown's energy sector capability in Australia and New Zealand, including the founding of Infigen Energy (and its unlisted predecessor, Global Wind Partners) where he served as a director from inception until June 2009. He was also a director of the ASX listed Alinta Limited and Sydney Gas Limited, as well as the unlisted Coogee Resources Limited. Warren has a B.E. (Electrical and Electronic Engineering)(Hons) and a B.Com (Accounting and Economics).

David Mazyck – Director of Technology and CEO Carbonxt Inc.

Dr. Mazyck is a world-leading expert on Activated Carbon and its applications including mercury capture. He has developed AC products for the major multinational AC manufacturers and has regularly consulted for them on technical issues. Dr. Mazyck is Chairman of the Activated Carbon Standards Committee for the American Waterworks Association and has developed products for NASA. He is a member of the World Coal Association and appointee to the United Nations efforts on developing a global treaty for mercury. He received his Ph.D. from Penn State University in Environmental Engineering where he also earned a Ph.D. minor in fuel science.

Directors' Report Cont.

Company Secretary

Tom Bloomfield

Operating results

The loss for the Group for the financial year after providing for income tax was $4,651,432 (2015: $3,774,571). The loss included the following significant items:

	2016 $	2015 $
Loss Before Significant Items	(3,278,119)	(3,753,787)
Significant Items:		
-Convertible note net movement	(627,484)	(113,364)
-Licence Royalty net movement	(427,751)	78,921
-Share based payment expense	(318,078)	13,659
Loss After Tax after Significant Items	(4,651,432)	(3,774,571)

The decrease in the loss before significant items was mainly as a result of cost reduction initiatives.

Review of operations

The Group's main business is the development and sale of activated carbon products, principally for the capture of mercury from coal fired power stations in the USA to enable them to comply with environmental legislation.

The Group's proprietary product, Magnetic Powdered Activated Carbon (MPAC), is produced by reprocessing and enhancing third-party activated carbon without the need for significant capital expenditure.

Mercury is a known toxin which can impede the development of the brain in unborn babies and infants. The US Environmental Protection Agency (EPA) mandated the removal of approximately 90% of mercury emissions from coal fired power stations through the Mercury and Air Toxic Standards (MATS) legislation. MATS came into formal effect from 16 April 2016.

MATS has been through a tortuous path until its introduction this year with a US District Court ruling this financial year allowing the MATS implementation to proceed, following an earlier Supreme Court challenge over the administration of the Act.

In our opinion, the utilities effected by MATS initially have concentrated on just making sure that their plants are compliant rather than looking at the overall delivered cost or the optimisation of their fleet performance.

Carbonxt offers a non-halogenated product to the market, whereas our competitors use bromine, a halogen, as their oxidising agent. It is our thesis that bromine is corrosive and that the industry's extensive use of calcium bromide as a fuel additive, and brominated Activated Carbon could lead to increased levels of corrosion of power station plant and equipment. Several utilities are now experiencing corrosion and have asked us to test our products in their specific situations. So far, we are pleased to report that our products have performed at least as well, and significantly better in many circumstances. Testing is on-going with these utilities and we would hope to be in a position to announce some additional offtake contracts before the end of 2016.

The construction of the equipment associated with our first major contract for the supply of activated carbon, has progressed smoothly and is on schedule and on-budget for completion in 2016. The six year contract commences when the power plant it is servicing completes its capital works commissioning due in the second half of FY17.

We were successful earlier this year in winning our second supply contract for a Mid-West utility for up to 1,500 tons per annum. This contract has been successful in demonstrating our robust supply chain and as such providing a reference plant for future sales. The customer is extremely satisfied with the Carbonxt product's performance and our industry leading customer service.

In FY16, we appointed United Conveyor Corporation (UCC) as the Group's exclusive product distributor on a sales commission basis. UCC is one of North America's leading equipment suppliers to the power utility market. We are working closely with UCC to capitalise on their extensive sales agent network. Currently, UCC and Carbonxt are working on two significant contracts where we are the preferred party and working closely together to close out these sales.

During FY16, UCC subscribed for 13,400,000 shares at AUD $0.07 per share. UCC also had the right to subscribe for a further 26.8 million shares in two tranches of 15 million exercisable by 31 March 2016 and 30 June 2016 at an exercise price of USD $0.05 per share. UCC did not exercise these options.

Directors' Report Cont.

During the year, the Group raised a further $1.0m from the issue of 25,000,000 shares at 4 cents per share to an associate (Walker Group Holdings Pty Ltd) of our largest shareholder, which was approved by shareholders at an EGM in April 2016 as part of a Placement of ordinary shares. Post year end, the Company completed that approved Placement for a further $1.512m, through the issuance of 37,810,812 shares at 4 cents per share.

Convertible Notes

In 2011 the Group issued 5,822,531 convertible notes with a face value of $1 and a maturity date of 20 July 2012. These notes could either be converted into shares at maturity at the election of either the Group or the note holders, or repaid in cash at 125% of their face value.

In 2012 the maturity date was extended to 31 December 2015 in consideration of the note holders subscribing further capital. The Group's financial statements and Convertible Note Register recorded all of the notes as having a maturity date of 31 December 2015 in accordance with this amendment.

In July 2015, the Directors were made aware by convertible note holders holding 2,193,333 convertible notes that their maturity extension documents, signed by the Group's previous Managing Director, specified a maturity date of 30 June 2015 and not 31 December 2015 as approved by the directors at the time. The Group has been unable to find any evidence of approval of this earlier maturity date and it appears to have been an administrative error on behalf of the Group. Despite this, the note holders advised of their intention to potentially enforce their rights for repayment at 125% of face value as the maturity date had passed.

Rather than engage in a protracted and costly legal dispute with the note holders, the directors resolved to renegotiate the terms of the convertible notes and extend their repayment date. The revised terms of the convertible notes have been agreed as follows:

- The repayment date of the principal amount of $2,193,333 has been extended to 31 December 2017;
- Interest will be paid at maturity at 8% per annum;
- The 25% premium payable on repayment ($548,333) will not apply and has been settled by the issue of 7,833,333 ordinary shares at 7 cents per share;
- The note holders have the right to convert up to half of the notes into ordinary shares at 7 cents per share at any time prior to maturity.

On 1 December 2015, the Group issued a conversion notice for the remaining 3,629,198 convertible notes maturing on 31 December 2015 at a price of 9.53 cents per share resulting in 38,081,826 shares being issued to those note holders.

Principal activities

The principal activities of the Group during the financial year were the ownership and development of technologies for capturing mercury and other emissions from coal fired power stations.

Significant changes in state of affairs

No significant change in the nature of these activities occurred during the year.

After balance date events

As noted earlier, the Company completed a Placement of ordinary shares at $0.04 per share raising $1.512m.

Future development, prospects and business strategies

The Group is currently responding to a significant number of Requests for Proposal from US power utilities and, if successful, expects to enter into further sales contracts for the supply of its activated carbon products within the next six months.

Depending on the success or otherwise of achieving sales contracts, the Group may require further capital to fund its operations.

Directors' Report Cont.

Environmental issues

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory of Australia.

Dividends

The Company has not declared dividends during the year (2015: nil).

Indemnifying directors and officers

Premiums of $61,367 (2015: $65,774) were paid for directors and officers liability insurance during or since the end of the financial year.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the end of the financial year.

Proceedings on behalf of company

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the year.

Directors Meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director are as follows:

	Number of meetings attended	Number of meetings held
Matthew Quinn	10	10
Warren Murphy	10	10
David Mazyck	10	10

Non-audit services

There were no non-audit services provided by the Company's auditor, Ernst & Young.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7 and forms part of this directors' report.

Signed in accordance with a resolution of the Board of Directors.



_____

Warren Murphy
Director

16 November 2016

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

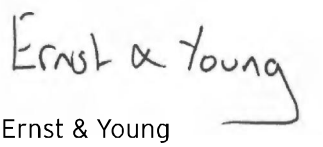
Auditor's Independence Declaration to the Directors of Carbonxt Group Limited and its controlled entities

As lead auditor for the audit of Carbonxt Group Limited and its controlled entities for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

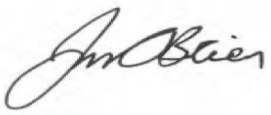
a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

This declaration is in respect of Carbonxt Group Limited and the entities it controlled during the financial year.



Ernst & Young



Julian M. O' Brien
Partner
16 November 2016

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	Consolidated 2016 $	Consolidated 2015 $
Revenue			
Sales revenue	4	**876,880**	19,600
Other income	4	**8,498**	22,115
Total revenue		**885,378**	41,715
Goods used and sold in cost of testing and production		**(1,172,927)**	-
Re-measurement of convertible notes	15	**(627,484)**	(113,364)
Depreciation and amortisation expenses	5	**(202,638)**	(295,513)
Employee benefits expense	5	**(1,843,277)**	(1,717,449)
Interest expense	5	**(186,614)**	(289,647)
Other expenses	5	**(1,503,870)**	(1,400,313)
Loss before income tax		**(4,651,432)**	(3,774,571)
Income tax expense	6	**-**	-
Loss for the year after income tax		**(4,651,432)**	(3,774,571)
Other comprehensive income			
Foreign currency translation		**93,921**	331,290
Other comprehensive income for the period, net of tax		**93,921**	331,290
Total comprehensive loss for the period		**(4,557,511)**	(3,443,281)
Loss for the period is attributable to:			
Owners of the Parent		**(4,651,432)**	(3,774,571)
Total comprehensive loss for the period is attributable to:			
Owners of the Parent		**(4,557,511)**	(3,443,281)
Earnings per share (cents per share)	17		
Basic loss per share for the year attributable to ordinary equity holders of the parent		(1.23)	(1.21)
Diluted loss per share for the year attributable to ordinary equity holders of the parent		(1.23)	(1.21)

The statement of comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	Consolidated 2016 $	2015 $
Assets			
Current Assets			
Cash and cash equivalents	8	**402,648**	767,755
Trade and other receivables	9	**529,879**	-
Inventories	10	**201,577**	642,970
Other current assets	11	**87,455**	53,262
Total Current Assets		**1,221,559**	1,463,987
Non-Current Assets			
Property, plant and equipment	12	**1,120,451**	604,695
Intangible assets	13	**1,587,705**	1,577,893
Total Non-Current Assets		**2,708,156**	2,182,588
Total Assets		**3,929,715**	3,646,575
Liabilities			
Current Liabilities			
Trade payables and customer deposits	14	**1,566,056**	331,707
Loans and borrowings	15	**66,166**	6,101,576
Total Current Liabilities		**1,632,222**	6,433,283
Non Current Liabilities			
Loans and borrowings	15	**2,133,578**	-
Other liabilities	16	**1,876,976**	1,449,225
Total Non Current Liabilities		**4,010,554**	1,449,225
Total Liabilities		**5,642,776**	7,882,508
Net Assets		**(1,713,061)**	(4,235,933)
Equity			
Equity attributable to members of the parent entity:			
Contributed Equity	18	**41,505,387**	34,939,323
Reserves	19	**12,479,634**	11,871,394
Accumulated Losses		**(55,698,082)**	(51,046,650)
Total Equity		**(1,713,061)**	(4,235,933)

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

Consolidated	Notes	Contributed Equity $	Reserves $	Accumulated Losses $	Total Equity $
Balance at 30 June 2014		31,488,128	11,553,763	(47,272,079)	(4,230,188)
Comprehensive income (restated)					
Loss for the year		-	-	(3,774,571)	(3,774,571)
Other comprehensive income		-	331,290	-	331,290
Total restated comprehensive income for the year		-	331,290	(3,774,571)	(3,443,281)
Restated transactions with owners in their capacity as owners:					
Share based payments expense	19	-	(13,659)	-	(13,659)
Issued shares		3,501,195	-	-	3,501,195
Share issue transaction costs		(50,000)	-	-	(50,000)
Total restated transactions with owners in their capacity as owners		3,451,195	(13,659)	-	3,437,536
Balance at 30 June 2015		34,939,323	11,871,394	(51,046,650)	(4,235,933)
Loss for the year		**-**	**-**	**(4,651,432)**	**(4,651,432)**
Other comprehensive income		**-**	**93,921**	**-**	**93,921**
Total comprehensive income for the year		**-**	**93,921**	**(4,651,432)**	**(4,557,511)**
Transactions with owners In their capacity as owners:					
Issued shares	18	**6,566,064**	**-**	**-**	**6,566,064**
Remeasurement of convertible note		**-**	**537,574**	**-**	**537,574**
Share based payments expense		**-**	**(23,255)**	**-**	**(23,255)**
Total transactions with owners in their capacity as owners		**6,566,064**	**514,319**	**-**	**7,080,383**
Balance at 30 June 2016		**41,505,387**	**12,479,634**	**(55,698,082)**	**(1,713,061)**

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

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2016

	Notes	Consolidated 2016 $	2015 $
Cash flows from operating activities			
Cash receipts		**360,178**	40,770
Payments to suppliers and employees		**(2,138,206)**	(3,779,989)
Interest paid		**(15,928)**	-
Interest received		**831**	8,118
Net cash used in operating activities	22	**(1,793,125)**	(3,731,101)
Cash flows from investing activities			
Payments for property, plant & equipment	12	**(572,408)**	(99,518)
Net cash used in investing activities		**(572,408)**	(99,518)
Cash flows from financing activities			
Repayment of loans		**(10,380)**	(10,157)
Issuance of shares	18	**2,047,200**	3,501,195
Share issue transaction costs	18	**-**	(50,000)
Net cash provided by financing activities		**2,036,820**	3,441,038
Net change in cash and cash equivalents		**(328,713)**	(389,581)
Net foreign exchange differences		**(36,394)**	168,079
Cash and cash equivalents at beginning of financial year		**767,755**	989,257
Cash and cash equivalents at end of financial year	8	**402,648**	767,755

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

Contents on Notes to the Financial Statements

1	Corporate information
2	Summary of significant accounting policies
3	Critical accounting estimates and judgements
4	Revenue
5	Expenses
6	Income tax expense
7	Auditor's remuneration
8	Current assets – Cash and cash equivalents
9	Current assets – Trade and other receivables
10	Current assets – Inventories
11	Current assets – Other current assets
12	Non current assets – Property, plant and equipment
13	Non current assets – Intangible assets
14	Current liabilities – Trade payables and customer deposits
15	Current and non current liabilities – Loans and borrowings
16	Non current liabilities – Other liabilities
17	Earnings per share
18	Contributed equity
19	Reserves
20	Commitments and contingencies
21	Parent entity information
22	Cash flow information
23	Events after the balance sheet date
24	Financial instrument risk management
25	Controlled entities
26	Key management personnel
27	Share-based payment plans
28	Fair value disclosures

1 Corporate information

This financial report of Carbonxt Group Limited (the 'Company') for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors on 16 November 2016.

Carbonxt Group Limited (the Parent) is a company limited by shares incorporated in Australia. The shares are not publically traded. Carbonxt Group Limited does not have an ultimate holding company. The Company is a For Profit entity.

The nature of the operations and principal activities of the Group are described in the directors' report.

2 Summary of significant accounting policies

(a) Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied. All amounts are presented in Australian dollars which is the Group's functional and presentation currency, unless otherwise noted.

(b) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) New Accounting Standards and Interpretations

(i) Standards and Interpretations affecting amounts reported in the current period

The accounting policies adopted are consistent with those of the previous financial year. From 1 July 2015, the Group has adopted all the standards and interpretations mandatory for annual periods beginning on or after 1 July 2015. Adoption of these standards and interpretations did not have any effect on the statements of financial position or performance of the Consolidated Entity. The Consolidated Entity has not elected to early adopt any new standards or amendments.

(ii) Standards and interpretations in issue not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They have been issued but are not yet effective and are available for early adoption at 30 June 2016, but have not been applied in preparing this financial report.

Reference and title	Details of New Standard / Amendment / Interpretation	Application date for the Group
AASB 16 (issued February 2016)	AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases. There are some optional exemptions for leases with a period of 12 months or less and for low value leases. This standard will not apply to leases to explore for or use minerals.	**1 July 2019**
AASB 15 Revenue from contracts with customers	AASB 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	**1 July 2018**

2 Summary of significant accounting policies Cont.

Reference and title	Details of New Standard / Amendment / Interpretation	Application date for the Group
AASB 9 / IFRS 9 Financial Instruments AASB 2010-7 and AASB 2012-6 Amendments to AAS's arising from AASB 9	The revised IFRS 9 will eventually replace AASB 139 and all previous versions of IFRS 9. The revised standard includes changes to the: · classification and measurement of financial assets and financial liabilities · expected credit loss impairment model · hedge accounting. Financial assets are measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Apart from the 'own credit risk' requirements, classification and measurement of financial liabilities is unchanged from existing requirements.	**1 July 2018**

The Directors have not yet assessed but do not anticipate that the above amendments and interpretations will not have a material impact on the financial report of the Group in the year or period of initial application**.**

Apart from the above, other accounting standards, amendments and interpretations that will be applicable in future periods have been considered, however their impact is considered insignificant to the Group

(d) Significant Uncertainty over Going concern

As at 30 June 2016 the Group has a deficiency in net assets of $1.7 million, which includes Non-current liabilities of $1.9 million relating to royalties for the use of a patent, which are only payable if and when revenue is generated.

The ability of the Group to continue as a going concern is dependent on the ability to raise capital. However should additional capital not be available, the Group may be unable to continue as a going concern.

The directors are confident of raising additional capital to continue as a going concern having successfully done so in prior financial periods. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

(e) Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

2 Summary of significant accounting policies Cont.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

(f) Income Tax

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

Current tax

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

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

Deferred tax

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

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

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

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

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

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

2 Summary of significant accounting policies Cont.

(g) Property, Plant and Equipment

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

Plant and equipment

Plant and equipment are measured at cost less depreciation and impairment losses.

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

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

Depreciation

The depreciable amount of all fixed assets including building and capitalised leased assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Class of Fixed Asset	*Depreciation Rate*
Office Equipment	10-37.5%
Plant and Equipment	20%
Motor Vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the income statement.

When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(h) Leases

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

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

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

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

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(i) Financial Instruments

Initial recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

When financial instruments are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit and loss, directly attributable transaction costs. Transaction costs related to instruments classified at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

2 Summary of significant accounting policies Cont.

Effective interest rate method

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities 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 assets, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

Classification and subsequent measurement

– Financial assets at fair value through profit or loss

  Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

– Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

– Available-for-sale financial assets

  Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. They are held at fair value with changes in fair value taken through the financial assets reserve directly in equity.

Impairment of financial assets

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

The carrying amount of financial assets including uncollectable trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

Impairment of Non-Financial Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. 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.

Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

2 Summary of significant accounting policies Cont.

(j) Intangibles

Capitalised Expenditure

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised.

The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

(k) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.
- Income and expenses are translated at average exchange rates for the period, where this approximates the rate at the transaction date.
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

2 Summary of significant accounting policies Cont.

(l) Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

(m) Provisions

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

Provisions are measured using the best estimate of amounts required to settle the obligation at balance date.

(n) Cash and Cash Equivalents

Cash comprises cash on hand and demand 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.

Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(o) Sales revenue, cost of sales, other testing and production costs

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and that it can be reliably measured.

Revenue from the sale of activated carbon is recognised in the financial period during which the activated carbon is produced or purchased, provided that prior to the reporting date they are either sold or delivered in the normal course of business in accordance with agreements with purchasers. Sales revenue represents amounts invoiced, excluding applicable taxation.

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.

Cost of sales includes purchase and production testing costs, milling, blending and bagging costs. Other Production Costs include direct labour costs, storage and freight handling costs.

All revenue is stated net of the amount of goods and services tax (GST).

(p) Borrowing Costs

Borrowing costs are recognised in the income statement in the period in which they are incurred.

(q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

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

(r) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an on-going basis. Debts that are known to be uncollectable are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Group will not be able to collect the debt.

2 Summary of significant accounting policies Cont.

(s) Trade and other payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect to the purchase of these goods and services. The amounts are unsecured.

(t) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(u) Convertible notes

Convertible notes are separated into liability and equity components based on the terms of the contract.

On issuance of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity.

Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not re-measured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible preference shares based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

(v) Contributed Equity

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

(w) Share –based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 27. The fair value determined at the grant date of the equity-settled share-based payments is expensed on vesting. There are no unvested equity settled share-based payments.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that 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 is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in profit or loss for the year.

(x) Fair value measurement

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

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2 Summary of significant accounting policies Cont.

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

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

(y) Inventories

Inventories are stated at the lower of cost and net realisable value on a “first in first out” basis.

Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and where applicable, transfers from cash flow hedging reserves in equity.

Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Cost of Activated Carbon and Raw Materials are valued at average cost including haulage.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated future selling price in the ordinary course of business, based on prevailing metal prices, less the estimated costs of completion and the estimated costs necessary to make the sale.

3 Critical accounting estimates and judgements

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. 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.

Key estimates — Impairment

The Group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations, which incorporate various key assumptions.

No impairment has been recognised at reporting date. The Group assesses the estimated useful life of assets based upon historical experience, industry experience and estimated usage for each class of asset.

Significant judgments — Taxation

Deferred tax assets are not recognised for deductible temporary differences as management considers that it is not virtually certain that future taxable profits will be available to utilise those temporary differences.

Deferred tax assets, including those arising from recouped tax losses, capital losses and temporary differences, will be recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. As at 30 June 2016 the Company had carry forward income tax losses of approximately $13.8 million and carrying forward capital losses of approximately $3 million. No amount has been estimated for subsidiaries, as these tax losses are uncertain at this point in time.

3 Critical accounting estimates and judgements cont.

Significant judgments - Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Refer to note 24 for further discussion.

Key estimates – Share based payments

Management judgment is applied in determining the following key assumptions that are used in the valuation of share-based payments:

- Market price of the underlying asset
- Prevailing level of the risk free rate
- Expected volatility of the value of the underlying asset over the period until the expiry of the option
- Level of dividends expected to be paid on the asset in the period until the expiry of the option and their timing
- Probability of options held being exercised
- Performance conditions

Key estimates – Convertible notes

Management judgment is applied in determining the following key assumptions that are used in the valuation of the convertible notes liability:

- Market price of the underlying asset
- Prevailing level of the applicable interest rate
- Probability of notes held being converted to shares or repaid

4 Revenue

	Consolidated 2016 $	2015 $
Income		
Sales	**876,880**	19,600
Other Income		
Interest income	**831**	8,118
Rental income	**-**	6,000
Miscellaneous income	**7,667**	7,997
Total other income	**885,378**	41,715

5 Expenses

	Consolidated 2016 $	2015 $
Profit before income tax includes the following expenses:		
Depreciation and amortisation expense		
- Property, plant and equipment	**83,090**	93,389
- Borrowing costs	**26,400**	105,600
- Intellectual property	**93,148**	96,524
Total depreciation and amortisation expense	**202,638**	295,513
Interest expense		
- Interest expense	**15,928**	-
- Convertible note imputed interest	**170,686**	289,647
Total interest expense	**186,614**	289,647
Employee benefit expense		
- Wages, salaries and directors' fees	**1,525,199**	1,731,108
- Share based payment expense	**318,078**	(13,659)
Total employee benefits expense	**1,843,277**	1,717,449
Other expenses		
- Administration	**250,031**	184,911
- Consultancy and legal fees	**180,969**	435,533
- Licencing rights fair value adjustment	**427,751**	(78,921)
- Marketing	**66,050**	46,345
- General expenses	**298,928**	416,456
- Technical feasibility	**80,869**	164,522
- Travel expenses	**199,272**	224,460
- Loss on disposal of property, plant and equipment	**-**	7,007
Total other expenses	**1,503,870**	1,400,313

6 Income tax expense

	Consolidated 2016 $	2015 $
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on loss from ordinary activities before income tax at 30% (2015: 30%)		
Consolidated entity	**(1,395,430)**	(1,132,371)
Add:		
Tax effect of:		
- Non-deductible expenses	**1,268,881**	924,977
- Deferred tax asset not recognised	**126,549**	207,394
Income tax expense	**-**	-

Deferred tax assets, including those arising from recouped tax losses, capital losses and temporary differences will be recognised only where it is considered probably that they will be recovered, which is dependent on the generation of sufficient future taxable profits. As at 30 June 2016 the Company had carry forward Australian income tax losses of around $13.8 million (2015: $13 million) and carrying forward capital losses of approximately $3 million. Availability of using these losses in the future is subject to the Company meeting certain criteria (e.g. continuity of ownership or same business test). No amount has been estimated for subsidiaries, as these losses are uncertain at this point in time.

7 Auditor's remuneration

	Consolidated 2016 $	2015 $
Remuneration of the auditor of the parent entity for auditing the financial report	**66,213**	53,000
Total auditor's remuneration	**66,213**	53,000

8 Current assets - Cash and cash equivalents

	Consolidated 2016 $	2015 $
Cash at bank and on hand	**402,648**	767,755
Total cash at bank and on hand	**402,648**	767,755

9 Current assets - Trade and other receivables

	Consolidated 2016 $	2015 $
Trade and other receivables (net of provision for doubtful debts)	**529,879**	-
Total trade and other receivables	**529,879**	-

10 Current assets – Inventories

	Consolidated 2016 $	2015 $
Activated carbon finished goods	**85,767**	48,645
Raw materials	**115,810**	594,325
Total inventories	**201,577**	642,970

11 Current assets – Other current assets

	Consolidated 2016 $	2015 $
GST receivable	**11,563**	9,740
Prepayments	**75,892**	43,522
Total other current assets	**87,455**	53,262

12 Non-current assets – Property, plant and equipment

	Consolidated 2016 $	2015 $
Plant and equipment		
At cost	**1,643,757**	**1,029,278**
Accumulated depreciation	**(523,306)**	**(424,583)**
Total plant and equipment	**1,120,451**	**604,695**

Movements in Carrying Amounts

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

	Consolidated 2016 $	2015 $
Opening balance at 1 July	**604,695**	494,584
Additions	**578,423**	99,518
Disposals	**-**	(8,202)
Exchange differences	**20,423**	112,184
Depreciation expense	**(83,090)**	(93,389)
Carrying amount at 30 June	**1,120,451**	604,695

13 Non-current assets – Intangible assets

	Consolidated 2016 $	2015 $
Intellectual property		
Owned and licensed patents and pending patents at cost	**2,202,669**	2,164,092
Accumulated amortisation	**(614,964)**	(586,199)
Total intangible assets	**1,587,705**	1,577,893

Movements in Carrying Amounts

Movement in the carrying amounts for intellectual property between the beginning and the end of the current financial year:

	Consolidated 2016 $	2015 $
Opening balance at 1 July	**1,577,893**	1,607,908
Exchange differences	**102,960**	66,509
Amortisation expense	**(93,148)**	(96,524)
Carrying amount at 30 June	**1,587,705**	1,577,893

A licensed patent with a deemed cost of $1,445,822 pertains to the Group's exclusive license to a patent owned by Engineering Performance Solutions (EPS) for magnetic activated carbon technology that maximises mercury capture from flue gas.

13 Non-current assets – Intangible assets Cont.

The Group acquired the licence in 2012 in consideration for EPS becoming entitled to royalties based on a percentage of revenue from the sale of products by the Group that use EPS' technology. The fair value of future royalty payments on the acquisition date was assessed at $1,445,822, which is deemed to be the cost of the asset acquired.

The deemed cost of the patent licence is amortised over the life of the asset. Amortization expense for the EPS patent included in the 2016 income statement totals $90,360 (2015: $90,360).

The fair value of the royalty liability changes year on year and the movement is booked through the Statement of Comprehensive Income (refer to note 16).

14 Current liabilities – Trade payables and customer deposits

	Consolidated	
	2016	**2015**
	$	**$**
Trade payables	**519,388**	228,978
Customer deposits	**1,009,965**	-
Other payables	**36,703**	102,729
Total trade and other payables	**1,566,056**	331,707

All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

15 Current and non current liabilities – Loans and borrowings

	Notes	Consolidated 2016 $	2015 $
Current liabilities			
Loans		**66,166**	77,463
Convertible notes subsequently converted (a)		**-**	3,612,723
Convertible notes subsequently extended		-	2,437,790
Less borrowing costs capitalised		**-**	(26,400)
Loans and borrowings		**66,166**	6,101,576
Non current liabilities			
Convertible notes		**2,133,578**	-
Loans and borrowings		**2,133,578**	-

The convertible notes were reclassified as a non current liability in FY 2016 as the notes mature on 31 December 2017.

Movement of the convertible notes following conversion and re-measurement between the beginning and the end of the current financial year:

Opening balance of convertible notes at 1 July 2015	**6,050,513**	5,647,502
Conversion of convertible notes	**(3,612,723)**	-
Re-measurement of convertible notes	**627,484**	113,364
Imputed interest	**170,686**	289,647
Re-measurement of convertible notes on conversion	**(16,475)**	-
Recognition of equity component of the extended convertible notes	**(537,574)**	-
Convertible note premium settled (Note 18 (b))	**(548,333)**	-
Closing balance of convertible notes at 30 June 2016	**2,133,578**	6,050,513

15 Current and non current liabilities – Loans and borrowings Cont.

(a) Convertible notes converted during the year

3,629,198 notes and the corresponding liability of $3,612,723 were converted into 38,081,826 shares on 1 December 2015.

(b) Outstanding convertible notes

The key terms and conditions are:

Amount:	$2,193,333
Issue price:	$1 per note
Maturity date:	31 December 2017
Interest rate:	8%
Conversion:	The note holder has the option to convert $1.1 million of these notes into shares at 7 cents per share at any date prior to maturity at a conversion price based on a specified formula.
Redemption:	If not converted, the notes would be redeemed for cash.

The movement in these notes during the year was:

	Number of notes	Valuation $
Opening balance – 1 July 2015	2,193,333	2,437,790
Imputed interest		170,686
Remeasurement of convertible notes		627,484
Remeasurement of convertible notes on conversion		(16,475)
Recognition of equity component of the extended convertible notes		(537,574)
Convertible note premium settled (Note 18 (b))		(548,333)
Closing balance – 30 June 2016	2,193,333	2,133,578

16 Non current liabilities – Other liabilities

	Consolidated 2016 $	2015 $
Royalty payable	**1,876,976**	1,449,225
Total - Other liabilities	**1,876,976**	1,449,225

The Group has an exclusive licence from EPS to use its patented technology. Royalties are payable to EPS out of revenue received by the Group from the sale of products using the EPS technology as follows:

- Sale price below US$2,000 per ton -1% of revenue.
- Sale price of US$2,000 to US$2,500 per ton - 2% of revenue.
- Sale price of US$2,500 to US$3,000 per ton - 3% of revenue.
- Sale price above US$3,000 per ton - 4% of revenue.

The patent has been recognised as an intangible asset (refer to note 13) and the corresponding liability for future royalties is valued using a probability weighted discounted cash flow methodology. The movement in the valuation of the liability of $427,751 has been taken as income to the Statement of Comprehensive Income.

17 Earnings per share

		Consolidated 2016	2015
a.	**Basic Loss per share**		
i.	Basic Loss per share (cents per share)	**(1.23)**	(1.21)
ii.	Net loss used to calculate basic loss per share	**(4,651,432)**	(3,774,571)
iii.	Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share	**377,716,501**	313,195,852

b. Diluted loss per share

The Company's potential ordinary shares, being its options granted, are not considered dilutive as the conversion of these options would result in a decrease in the net loss per share.

18 Contributed equity

	Consolidated 2016 $	2015 $
(a) Share capital		
"A" Class Shares – Fully paid	**40,967,835**	34,401,771
US Subsidiary Capital Premium*	**537,552**	537,552
Total share capital	**41,505,387**	34,939,323

(b) Movements in ordinary share capital	**Number Of shares**	**Price per share**	**$**
"A" Class Shares			
Balance at 1 July 2014	**287,821,120**		**30,950,576**
Shares issued from 1:8 rights issue	36,718,453	$0.0700	2,563,195
Share placement	13,400,000	$0.0700	938,000
Share issue costs	**-**	-	(50,000)
Sub total	**50,118,453**		**3,451,195**
Balance at 30 June 2015	**337,939,573**		**34,401,771**
Share placement	14,960,000	$0.0700	1,047,200
Shares issued to Werft Pty Ltd associate (EGM April 2016)	25,000,000	$0.0400	1,000,000
Shares issued to convertible note holders	7,833,333	$0.0700	548,333
Shares issued on conversion of convertible notes	38,081,826	$0.0953	3,629,198
Shares issued on vesting of performance rights**	8,533,333	$0.0400	341,333
Sub total	**94,408,492**		**6,566,064**
Balance at 30 June 2016	**432,348,065**		**40,967,635**

* The US subsidiary capital premium resulted from the premium paid by outside equity interests for shares in the Company's subsidiary Carbonxt Inc. prior to the Group acquiring the remaining 27% minority interest.

** The deemed issue price of shares issued on vesting of performance rights was $0.04 per share at the date of issue on 28 January 2016.

*** The share placement of 14,960,000 shares and the 25,000,000 shares issued to Walker Group Holdings Pty Ltd were for a total cash consideration of $2,047,200. The shares issued on conversion of convertible notes were for cash received in a prior period. No cash was received for shares issued on vesting of performance rights.

Capital Management

The Group's objective is to ensure it has sufficient funds to meet its obligations over the next 12 months. The Company aims to achieve positive cash flow within 12 months.

There are no externally imposed capital requirements.

19 Reserves

Nature and purpose of other reserves

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Convertible note equity reserve
The Convertible Note Equity Reserve records the equity portion of the convertible notes issued as described in Note 15.

Fair value of financial liability reserve
This reserve records movements in the fair value of investor loans when investor loans were converted to capital in 2008.

Share based payment reserve
This reserve records the fair value of the performance rights issued to directors and key executives.

	Consolidated				
	Fair value of financial liability	**Share based payments reserve**	**Convertible note equity reserve**	**Foreign currency translation reserve**	**Total**
	$	**$**	**$**	**$**	**$**
At 30 June 2014	8,853,868	2,809,041	25,557	(134,703)	11,553,763
Currency translation differences	-	-	-	331,290	331,290
Share based payment expense	-	(129,059)	-	-	(129,059)
Share based payment written-back	-	115,400	-	-	115,400
At 30 June 2015	**8,853,868**	**2,795,382**	**25,557**	**196,587**	**11,871,394**
Currency translation differences	**-**	**-**	**-**	**93,921**	**93,921**
Remeasurement of convertible note	**-**		**537,574**	**-**	**537,574**
Share based payment expense	-	**(23,255)**	**-**	**-**	**(23,255)**
At 30 June 2016	**8,853,868**	**2,772,127**	**563,131**	**290,508**	**12,479,634**

20 Commitments and contingencies

As at 30 June 2016, the Group had no finance lease commitments or capital commitments and had one operating lease in Gainesville, Florida. Future minimum lease rental payments for the operating lease are:

	Consolidated	
	2016	**2015**
	$	**$**
Within one year	**92,233**	92,233
After one but not more than five years	**-**	-
Total minimum lease payments	**92,233**	92,233

21 Parent entity information

		Parent entity 2016 $	Parent entity 2015 $
Financial information in relation to:			
i.	**Statement of Comprehensive Income**		
	Loss after income tax	**(3,749,724)**	(3,511,738)
	Total comprehensive loss	**(3,749,724)**	(3,511,738)
ii.	**Statement of Financial Position**		
	Total Current Assets	**68,493**	76,333
	Total Non Current Assets	**1,219,922**	1,221,497
	Total Assets	**1,288,415**	1,297,830
	Total Current Liabilities	**161,152**	6,152,915
	Total Non Current Liabilities	**4,010,554**	1,449,225
	Total Liabilities	**4,171,706**	7,602,140
	Net Assets	**(2,883,291)**	(6,304,310)
	Equity		
	Issued capital	**40,967,835**	33,463,771
	Reserves	**12,189,126**	11,674,807
	Accumulated losses	**(56,040,252)**	(51,442,888)
	Total Equity	**(2,883,291)**	(6,304,310)

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2016 and 30 June 2015.

Capital commitments
The parent entity had no capital commitments as at 30 June 2016 and 30 June 2015.

22 Cash flow information

	Consolidated 2016 $	2015 $
Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Loss after income tax	**(4,651,432)**	(3,774,571)
Non-cash flows in profit:		
– Depreciation and amortisation	**202,638**	295,513
– Imputed interest expense on convertible notes	**170,686**	289,647
– Loss recognised on re-measurement to fair value of convertible notes	**627,484**	113,364
– Loss/(Gain)recognised on re-measurement to fair value of licence royalty	**427,751**	(78,921)
– Net loss on disposal of property, plant and equipment	**-**	7,007
– Share based payment expense	**318,078**	(13,659)
Changes in assets and liabilities		
– (Increase) in trade and other receivables	**(529,879)**	-
– Decrease/(Increase) in inventories	**441,393**	(642,970)
– Decrease/(Increase) in other current assets	**(34,193)**	37,608
– Increase in trade creditors and customer deposits	**1,234,349**	35,881
Net cash flows used in operating activities	**(1,793,125)**	(3,731,101)

23 Events after the balance sheet date

Equity Raising

Since 30 June 2016 the Group has issued 38,523,302 shares at a price of AUD $0.04 per share

24 Financial instrument risk management

The Group is exposed to a variety of financial risks through its use of financial instruments.
This note discloses the Group's objectives, policies and processes for managing and measuring these risks.

a. Interest rate risk

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	Consolidated	
	2016	**2015**
	$	**$**
Cash and cash equivalents	**402,648**	767,755
	402,648	767,755
Net Exposure	**402,648**	767,755

The Group constantly analyses its interest rate exposure. Within this analysis, consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date:

	Consolidated	
	2016	**2015**
	$	**$**
Change in loss		
+1% (100 basis points)	**99**	7,678
-0.5% (50 basis points)	**(49)**	(3,839)
Change in equity		
+1% (100 basis points)	**99**	7,678
-0.5% (50 basis points)	**(49)**	(3,839)

b. Foreign currency risk

Exposure to currency exchange rate risk arises from the Group's overseas operations, which are denominated in US dollars. The Group has recently raised capital in US dollars to offset this risk.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency. The effect of a movement of 10% of the exchange rate used on the translation of the income statement of the US subsidiaries would amount to a change in the equity balance of the subsidiaries of $184,247.

24 Financial instrument risk management Cont.

c. Liquidity risk

The Group's current objective is to maintain continuity of funding.

Consolidated	≤ 6 Months	6-12 Months	1-5 Years	> 5 Years	Total
Financial Assets					
Cash and cash equivalents	**402,648**	**-**	**-**	**-**	**402,648**
Trade and other receivables	**529,879**	**-**	**-**	**-**	**529,879**
	932,527	**-**	**-**	**-**	**932,527**
Financial Liabilities					
Trade and other payables	**1,566,056**	**-**	**-**	**-**	**1,566,056**
Other loans	**-**	**66,166**	**-**	**-**	**66,166**
Convertible notes payable (conversion date 31 Dec 17)	**-**	**-**	**2,133,578**	**-**	**2,133,578**
	1,566,056	**66,166**	**2,133,578**	**-**	**3,765,800**
Net Maturity	**(633,529)**	**(66,166)**	**(2,133,578)**	**-**	**(2,833,273)**

25 Controlled entities

	Country of Incorporation	Percentage Owned (%) 2016	2015
Controlled Entities Consolidated			
Subsidiaries of Carbonxt Group Limited:			
Carbonxt Inc.	United States of America	100%	100%
Clear Carbon Innovations LLC	United States of America	100%	100%
Carbonxt Group Holdings LLC	United States of America	100%	100%

26 Key management personnel

Key Management Personnel during the period are as follows:

Matthew Quinn – Chairman
Warren Murphy – Managing Director
David Mazyck – Director of Technology and CEO Carbonxt Inc.

a. **Compensation of key management personnel**

Key management personnel compensation included within employee expenses is:

	Short-term benefits	Termination benefits	Post employment benefit	Other long-term benefits	Share based benefits	Total
	$	$	$	$	$	$
2015	803,276	-	-	-	(3,711)	799,565
Total compensation	803,276	-	-	-	(3,711)	799,565
2016	794,647	-	-	-	270,078	1,064,725
Total compensation	794,647	-	-	-	270,078	1,064,725

26 Key management personnel Cont.

b. Shareholdings of key management personnel

Shares and Performance Rights held directly or indirectly in The Company :

	"A" Class Shares		Performance Rights	
	2016	2015	2016	2015
	No.	*No.*	*No.*	*No.*
Matthew Quinn	24,200,000	22,200,000	4,000,000	6,000,000
Warren Murphy	2,000,000	-	4,000,000	6,000,000
David Mazyck	2,000,000	-	4,000,000	6,000,000

c. Other transactions of key management personnel and their related parties

David Mazyck has a 25% beneficial interest in EPS, which has provided a licence to the Group to use its patent (refer to note 16). Dr Mazyck was excluded from negotiations between EPS and the Group in respect of this transaction.

Pursuant to the EPS patent licence agreement (refer to note 13), EPS was granted 1,000,000 options as follows:
Exercise price: $0.60
Issue date: 18 December 2010
Maturity: 18 December 2015
These options have been assessed to have no material value and have expired.

d. Director Loans

There were no loans to directors.

27 Share-based payment plans

a. Recognised share-based payment

The amount recognised for services received during the year is shown in the table below.

	Consolidated	
	2016 $	2015 $
Value of equity-settled share-based payment transactions	(23,255)	(13,659)
	(23,255)	(13,659)

b. Share-based payment plan

	2016 No.	2015 No.	WAEP
Outstanding at the beginning of the year	22,500,000	23,625,000	$0
Granted during the year	1,200,000		$0
Exercised during the year	(8,533,333)	-	$0
Cancelled during the year	(500,000)	(2,000,000)	$0
Expired during the year	(7,333,333)	(1,125,000)	$0
Outstanding at the end of the year	7,333,334	22,500,000	$0

c. Performance rights granted to key personnel

During the year, 1,200,000 performance rights were granted to key personnel which were converted to 1,533,333 shares on 28 January 2016 at the deemed issue price of $0.04 per share (see Note 18).

d. Cancellation of Tranche 2 and Tranche 3 Performance Rights subsequent to year end.

At 30 June 2016, the following Tranche 2 and Tranche 3 Performance Rights were outstanding. Subsequent to the end of the financial year, Tranche 2 and Tranche 3 Performance Rights were cancelled.

Tranche	Grant date	Number of PRs in Tranche	Exercise price of PR $	Performance Conditions	Vesting Date	Final expiry date
2	11 Feb 2014	6,833,333	Nil	The annual EBITDA of the Company as stated in the Company's audited accounts for any of FY14, FY15 or FY16 exceeding $5,000,000 (*$5 million EBITDA condition).	The day after satisfaction of the Performance Condition.	30 Jun 2016
3	11 Feb 2014	6,833,333	Nil	The annual EBITDA of the Company as stated in the Company's audited accounts for any of FY14, FY15, FY16 or FY17 exceeding $10,000,000 (*$10 million EBITDA condition).	The day after satisfaction of the Performance Condition.	30 Jun 2017

e. Cancellation of 2016 Non Renounceable Entitlements Offer (Rights Issue)

At the AGM held on 19 January 2016, shareholders were advised there would be raising capital via a rights issue. Subsequently, the company received advice that a rights issue would require preparation of audited financial statements to 31 December 2015 which would have meant a long and costly process. The Board therefore decided to raise capital through a share placement to shareholders who are classified as sophisticated investors. Shareholder approval was required because major shareholder Werft committed to subscribe or for an associate to subscribe for $1m of the raising and Werft own more than 20% of the company. A general meeting of shareholders was held on 19 April, 2016. An Independent Expert's Report prepared for the meeting concluded that the Werft placement was fair and reasonable to those shareholders who were not associated with the Werft Group. The General Meeting approved the placement to Werft and/or associates.

28 Fair value disclosures

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

The carrying amounts of cash, trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The table below shows the assigned level for each asset and liability held at fair value by the Group:

30 June 2016	Level 1 $	Level 2 $	Level 3 $	Total $
Recurring fair value measurements				
Other loans	**-**	**66,166**	**-**	**66,166**
Royalty payable	**-**	**-**	**1,876,976**	**1,876,976**
Convertible notes payable	**-**	**-**	**2,133,578**	**2,133,578**
30 June 2015	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Recurring fair value measurements				
Other loans	**-**	77,463	-	77,463
Royalty payable	**-**	**-**	1,449,225	1,449,225
Convertible notes payable	**-**	**-**	6,024,113	6,024,113

There were no non-recurring fair value measurements for the year ended 30 June 2016.

There were no transfers between fair value hierarchy categories during the year.

Royalty payable

The terms of the liability has been disclosed in note 16. The fair value has been determined using the discounted cash flow method.

Significant unobservable valuation inputs are provided below:

Sales price per ton: $2,000 - $3,000 per tonne (2015: No change)
Sales tons: 5,000 - 20,000t/p.a. (2015: No change)
US Discount rate: 1.58% (2015: 2.02%) (risk free rate) at 25 September 2016

Significant increases (decreases) in the sales price per ton and tons sold would result in higher (lower) fair value of the royalty payable, while significant increases (decreases) in the discount rate would result in lower (higher) fair value of the liability.

Convertible notes payable

The terms of the liability have been disclosed in note 15. The fair value has been determined using a probability weighted valuation method depending on the expected conversion or redemption of these notes.

Conversion method: fair value has been determined using a predetermined formula as per the convertible note deed.

Significant unobservable valuation inputs are provided below:

Price per share: $0.07 (2015: $0.0953)

Redemption method: fair value has been determined by multiplying the face value of the notes with the premium attached on redemption and a net present value determined using an appropriate discount rate.

Significant unobservable valuation inputs are provided below:

Price per share: $0.04 (2015: $0.0953)
Redemption premium: 125% or 150% of face value (depending on scenarios) (2015: No change)
Market based interest rate: 20% (2015: 20%)
Australian Discount rate: 1.47% (2015: 1.89%) (risk free rate) at 25 September 2016

An estimate has been made as to the probability of various scenarios occurring, each of which would give rise to a different fair value of the convertible notes. These probabilities have been weighted and incorporated into the fair value of the convertible notes payable as disclosed in note 15.

Significant increase (decrease) in the price per share and interest rate would result in higher (lower) fair value of the convertible payable, while significant increase (decrease) in the discount rate would result in lower (higher) fair value of the liability.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 12 to 37 are in accordance with the Corporations Act 2001:

   a comply with Accounting Standards (including the Australian Accounting Interpretation) and the Corporations Regulations 2001; and

   a give a true and fair view of the financial position as at 30 June 2016 and of the performance for the year ended on that date of the company and consolidated group; and

   b complies with International Financial Reporting Standards as disclosed in Note 2

2. 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.

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



Director: _____

Warren Murphy

16 November 2016

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Building a better working world

Independent auditor's report to the members of Carbonxt Group Limited

Report on the financial report

We have audited the accompanying financial report of Carbonxt Group Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that 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 financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, 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 controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

Opinion

In our opinion:

a. the financial report of Carbonxt Group Limited is in accordance with the *Corporations Act 2001*, including:

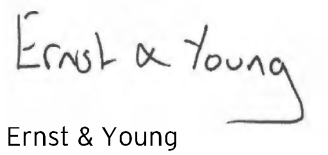
   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2(d) "Going Concern" in the financial report which describes the principal conditions that raise doubt about the entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast doubt significant doubt about the consolidated entity's ability to continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.



Ernst & Young



Julian M. O'Brien
Partner
Sydney
16 November 2016