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

INTERIM FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

DIRECTORS' REPORT

Your Directors submit the financial statements of Carnegie Clean Energy Limited (the Company) and its controlled entities (the consolidated group) for the half-year ended 31 December 2016.

Directors

The names of Directors who held office during or since the end of the half-year:

Mr Jeffrey Harding	
Dr Michael Edward Ottaviano	
Mr John Davidson	(Appointed 15 February 2017)
Mr Kieran O'Brien	
Mr Michael Fitzpatrick	
Mr Grant Jonathan Mooney	
Mr John Leggate	

Directors were in office for the entire period and up to the date of this report unless otherwise stated.

Principal Activities

The principal activities of the consolidated group during the half year were the development of the CETO Wave Energy Technology and the development of the Energy Made Clean solar, battery and microgrid business. For further information in relation to the activities of the consolidated group, please refer to review of operations.

Operating Results

The consolidated loss attributable to members for the half year ended 31 December 2016 after income tax was $7,832,929 (2015: $11,998,198 loss).

Review of Operations

During the period to 31 December 2016, the economic entity took significant steps to advance its microgrid business by doing the following:

- 100% acquisition of solar/battery project engineering company, Energy Made Clean (EMC), a growing business that generated $16 million of revenue last financial year. The acquisition of EMC delivers diversification to Carnegie and fast tracks our ability to deliver microgrids in any combination of wave, solar, wind and energy storage in Australia and internationally. With this acquisition, Carnegie is now the only ASX-listed company with a dedicated renewable energy microgrid project delivery capability;

- Establishment of a 50/50 Joint Venture Agreement ("JVA") with LendLease Services to deploy solar and battery projects around Australia. The JVA provides opportunities to increase EMC's capacity to bid for and deliver a broader range of solar, battery energy storage systems, and microgrid opportunities within Australia, including increased access to the National Energy Market ("NEM"), leveraging Lendlease's national footprint and staff of 3,000 people across Australia;

Review of Operations (continued)

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

Strong progress was also made on the development of the CETO 6 wave energy technology and site assessment and planning for wave energy projects both in Australia and overseas, including:

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

- Locally, planning permission was granted by the Western Australian State Government for the Garden Island Microgrid Project. This project will be the world's first wave integrated renewable microgrid project to deliver both electricity and desalinated water;

- Carnegie completed the design of CETO 6 and received the associated $1.1 million milestone grant payment from the Australian Renewable Energy Agency ("ARENA");

Carnegie also took significant commercial steps forward, including:

- Awarded $2.5 million of funding from the ARENA for the Garden Island Microgrid Project.

- Closing a new $3.7 million debt financing raise for the Garden Island Microgrid Project.

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

- Earned $0.3 million of revenue for the design, roadmap and wave assessment phases of the Mauritius Wave and Microgrid Design Project through a partnership between the Australian and Mauritian Governments.

- Received $0.5 million in gold royalty payments.

Events After the End of the Interim Period

In January 2017, £500,000 of funding was awarded by the government body Wave Energy Scotland to two wave energy research projects in which the Company is a partner.

In February 2017, Carnegie raised $5 million via the issue of convertible notes which may convert to shares in the Company at 8 cents per share. These funds will be applied towards working capital and to refinance EMC's pre-existing $500,000 working capital bank facility.

Additionally, in February 2017, Carnegie terminated the $21 million loan facility with the Commonwealth Bank of Australia. No debt was drawn under the facility.

Auditor's Independence Declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 5 for the half year ended 31 December 2016.

This report is signed in accordance with a resolution of the Board of Directors.

MICHAEL OTTAVIANO
Managing Director
Dated this 28th day of February 2017

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Carnegie Clean Energy Ltd for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

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

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

Crowe Horwath Perth

CROWE HORWATH PERTH

CYRUS PATELL
Partner

Signed at Perth, 28 February 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Note	Group	
		31.12.2016	31.12.2015
		$	$
Revenue			
Sales revenue	2	768,437	19,675
Royalty income	2	452,591	499,357
Share of profits of associates accounted for using the equity method	12	(578,981)	-
Adjustment to fair value of interest in associate	12	(3,682,636)	-
Other income		57,989	99,700
Cost of sales - solar, battery energy storage systems, & microgrids		(678,988)	-
Expenses			
Depreciation expense		(84,784)	(58,634)
Occupancy expenses		(167,569)	(171,104)
Research expenses		(193,334)	(91,531)
Employee and Director expenses		(2,302,955)	(1,432,872)
Share based payments		(70,910)	(299,906)
Doubtful debts expense		(10,000)	-
Finance costs		(254,168)	(1,218,489)
Impairment of intangible asset	6	-	(7,818,030)
Company secretarial expenses		(48,000)	(48,000)
Administrative expenses		(1,036,545)	(1,468,229)
Other expenses from ordinary activities		(3,076)	(10,135)
Loss before income tax		(7,832,929)	(11,998,198)
Income tax expense		-	-
Loss for the period	3	(7,832,929)	(11,998,198)
Other comprehensive income			
Exchange differences on translating foreign currencies and foreign controlled entities		(271)	593
Income tax relating to components of other comprehensive income		-	-
Total comprehensive loss for the period		(7,833,200)	(11,997,605)
Loss attributable to:			
Members of the parent entity		(7,832,929)	(11,998,198)
		(7,832,929)	(11,998,198)
Total comprehensive loss attributable to:			
Members of the parent entity		(7,833,200)	(11,997,605)
		(7,833,200)	(11,997,605)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Note	Group	
		31.12.2016	**31.12.2015**
		$	**$**
Loss per share			
Basic loss per share (cents)		(0.384)	(0.666)
Diluted loss per share (cents)		(0.384)	(0.666)

The accompanying notes form part of these financial statements.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	Group	
		31.12.2016	**30.06.2016**
		$	**$**
CURRENT ASSETS			
Cash and cash equivalents	9	6,522,719	8,200,500
Trade and other receivables	7	3,490,004	723,737
Inventories	14	4,078,264	-
Other assets		34,600	34,600
TOTAL CURRENT ASSETS		14,125,588	8,958,837
NON-CURRENT ASSETS			
Trade and other receivables	7	660,728	460,000
Available for sale financial assets		15,534	12,414
Other financial assets	8	-	3,690,000
Investment accounted for using the equity method	12	-	5,047,919
Property, plant and equipment		4,580,377	494,724
Intangibles – development assets	6	83,384,154	83,998,065
Intangibles – goodwill	6, 13	12,668,801	-
Other non-current assets		50,125	67,552
TOTAL NON-CURRENT ASSETS		101,359,720	93,770,674
TOTAL ASSETS		115,485,308	102,729,511
CURRENT LIABILITIES			
Trade and other payables	4	10,640,210	2,691,965
Interest bearing liabilities		9,298	-
Short term provisions		723,163	427,096
Short-term borrowings	11	3,646,256	-
TOTAL CURRENT LIABILITIES		15,018,926	3,119,061
NON-CURRENT LIABILITIES			
Trade and other payables	4	343,353	33,169
Long-term provisions		236,183	207,470
Long-term borrowings	11	-	3,423,035
TOTAL NON-CURRENT LIABILITIES		579,536	3,663,674
TOTAL LIABILITIES		15,598,462	6,782,735
NET ASSETS		99,886,846	95,946,776
EQUITY			
Issued Capital	10	165,866,309	154,019,225
Reserves		3,133,740	3,960,346
Accumulated losses		(69,113,203)	(62,032,825)
TOTAL EQUITY		99,886,846	95,946,776

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

Group	Issued Capital	Accumulated Losses	Option Reserve	Foreign Currency Reserve	Total
Balance at *1.7.2015*	**144,940,603**	**(60,565,270)**	**7,862,134**	**1,680**	**92,239,147**
Transactions with owners in their capacity as owners					
Share issue net of transaction costs	7,629,952	-	-	-	7,629,952
Equity portion of convertible note	-	-	379,733	-	379,733
Share based payment expense	-	-	299,906	-	299,906
Share based payment expired unexercised	-	4,881,832	(4,881,832)	-	-
Comprehensive loss					
Loss for the period		(11,998,198)			(11,998,198)
Other Comprehensive loss				593	593
Balance at *31.12.2015*	152,570,555	(67,681,637)	3,659,941	2,273	88,551,133
Balance at *1.7.2016*	**154,019,255**	**(62,032,825)**	**3,958,179**	**2,167**	**95,946,776**
Transactions with owners in their capacity as owners					
Share issue net of transaction costs	11,847,054	-	-	-	11,847,054
Cancellation of convertible note	-	717,147	(812,263)	-	(95,116)
Equity portion of convertible note	-	(49,578)	-	-	(49,578)
Share based payment expense	-	-	70,910	-	70,910
Share based payment expired unexercised	-	84,981	(84,981)	-	-
Comprehensive loss					
Loss for the period		(7,832,929)			(7,832,929)
Other Comprehensive loss				(271)	(271)
Balance at *31.12.2016*	165,866,309	(69,113,204)	3,131,845	1,896	99,886,846

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Note	Group 31.12.2016 $	31.12.2015 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,147,592	-
Interest received		100,013	107,902
Receipts from Royalties		498,795	606,139
Interest paid		(44,516)	(8,195)
Payments to suppliers and employees		(6,323,395)	(4,581,831)
Receipts from R&D Tax Rebate		3,142,973	14,049,871
Receipts from government grants		1,069,252	66,537
Net cash (used in)/provided by operating activities		(409,286)	10,240,423
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for development of asset		(2,325,234)	(2,206,997)
Purchase of property, plant and equipment		(2,343,577)	(15,871)
Sale of property, plant and equipment		-	690
Payments for purchase of financial assets		-	(3,690,000)
Receipt of convertible notes		3,690,000	
Acquisition of subsidiaries net of cash acquired		264,313	-
Net cash used in investing activities		(714,498)	(5,912,178)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from the issue of shares		(38,660)	7,518,606
Repayment of borrowings		(516,388)	-
Net cash (used in)/provided by financing activities		(555,048)	7,518,606
Net (decrease)/increase in cash and cash equivalents		(1,678,832)	11,846,851
Cash and cash equivalents at beginning of the half year		8,200,500	4,724,794
Effect of exchange rate fluctuations on cash held		1,051	2,787
Cash and cash equivalents at end of the half year	9	6,522,719	16,574,432

The accompanying notes form part of these financial statements.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The half-year financial statements are general purpose financial statements prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial statements and any public announcements made during the half year.

The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial statements are consistent with those adopted and disclosed in the Group's 2016 annual financial statements for the financial year ended 30 June 2016, except for:

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

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

  Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognized in the statement of profit or loss.

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

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

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

  Revenue from the solar and battery microgrid engineering and construction operations is recognised by reference to the stage of completion of projects. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

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

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

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

- *Impairment of goodwill* – Goodwill is tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit ("CGU") or group of CGUs to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

The adoption of all new and revised Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated group.

These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

NOTE 2: INCOME

Sales revenue

Sales revenue can be summarised as follows:	**Group**	
	31.12.2016	**31.12.2015**
	$	**$**
Energy Made Clean	511,610	-
Carnegie Clean Energy	256,827	-
	768,437	-

Royalty income

As a result of activities prior to the development of the CETO technology and the acquisition of the EMC business, the Company still holds a mining royalty with respect to a gold deposit in Western Australia. Under the royalty agreement the Company receives a quarterly payment per ounce of gold extracted by third parties. Holding the royalty has no cost to the Company.

NOTE 3: LOSS FOR THE PERIOD	**Group**	
	31.12.2016	**31.12.2015**
	$	**$**
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
Employee and Director benefits expense	(2,302,955)	(1,432,872)
Impairment of intangible asset	-	(7,818,030)
Finance costs	(254,168)	(1,218,489)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

NOTE 4: TRADE AND OTHER PAYABLES

	Group	
	31.12.2016	**30.06.2016**
	$	**$**
CURRENT		
Trade creditors	5,149,538	579,611
Accruals	4,831,867	2,055,177
Other	658,805	57,177
	10,640,210	2,691,965
NON-CURRENT		
Trade creditors	343,353	33,169
	343,353	33,169

Included within trade and other payables is an amount of contingent cash consideration of $679,012 related to the acquisition of EMC. The contingent cash consideration is payable to EMC's Chief Executive and founder John Davidson in two tranches and is dependent upon the achievement of reaching, or partially reaching, a target of $50 million revenue for the EMC cash generating unit for the two-year period ending 30 June 2018.

The maximum contingent cash consideration payable under the EMC Share Sale Agreement is $1,000,000. The Directors have determined the provisional fair value of the contingent cash consideration to be $679,012. This was determined using a 75% probability weighting for achieving the revenue target and after discounting the future value of the cash payments. The 75% probability was determined by management through forward sales analysis of budgeted versus actual sales.

The fair value of this contingent cash consideration has been determined in accordance with AASB 3, as outlined in Note 13.

NOTE 5: OPERATING SEGMENTS

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

The Group is organized into operating segments, the CETO wave energy technology and solar and battery project engineering and construction. The financial information presented in the statement of comprehensive income and statement of financial position is the same as that presented to the chief operating decision maker.

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker is in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group. Refer to Note 15.

NOTE 6: INTANGIBLE ASSETS

	Group	
	31.12.2016	**30.06.2016**
	$	**$**
Intangibles – development assets		
Initial acquisition cost of CETO Technology – 2009	55,989,877	55,989,877
Subsequent development expenditure – CETO Technology	75,899,961	72,301,647
	131,889,838	128,291,524
LEED grant received	(9,959,066)	(9,959,066)
ERP grants received	(14,414,633)	(13,345,381)
AusIndustry grant received	(1,268,088)	(1,268,088)
R&D tax incentive	(22,863,897)	(19,720,924)
Impairment for the period ended 31 December 2015	-	(7,818,030)
Reversal of impairment	-	7,818,030
	(48,505,684)	(44,293,459)
	83,384,154	83,998,065
Intangibles – goodwill		
Opening balance	-	-
Acquisition of EMC (refer to Note 13)	12,668,801	-
Closing balance	12,668,801	-

NOTE 7: TRADE AND OTHER RECEIVABLES

	Group	
	31.12.2016	**30.06.2016**
	$	**$**
CURRENT		
Trade receivables	720,377	3,337
Prepayments	40,337	90,521
Accrued revenue	402,976	295,462
Other receivables	2,213,166	74,417
Security deposits	113,148	260,000
	3,490,004	723,737
NON-CURRENT		
Prepayments	-	460,000
Security Deposits	660,728	-
	660,728	460,000

NOTE 8: OTHER FINANCIAL ASSETS

Other financial assets as at 30 June 2016 consisted of amounts held under guarantee for the repayment of 3,690 outstanding Convertible Notes at an issue price of $1,000 each ("Notes") issued on 18 November 2013. These Notes were cancelled and reissued on 17 November 2016 such that they no longer require amounts held under guarantee. The reissued notes are due to mature on 17 November 2017 if they do not convert to equity prior to this date. The Notes may be converted to equity at any time at the discretion of the Note holder. The Note holders also have the option to extend the maturity date by 12 months. For further information of the convertible notes refer to Note 11.

NOTE 9: CASH AND CASH EQUIVALENTS

	Group	
	31.12.2016	**30.06.2016**
	$	**$**
Cash on hand	394	606
Cash at bank	6,522,325	8,199,894
	6,522,719	8,200,500

NOTE 10: ISSUED CAPITAL

(1) On 6 December 2016, 297,142,857 ordinary shares were issued as part consideration for the Company's 100% acquisition of the Energy Made Clean group. The issue of these shares is considered to be a non-cash investing activity for the purposes of AASB 107. Refer to note 13 for further information.

NOTE 11: BORROWINGS

	Group	
	31.12.2016	**30.06.2016**
	$	**$**
Convertible Notes*	3,646,256	3,423,035

	Group	
	31.12.2016	**30.06.2016**
Movement in Convertible Notes	**$**	**$**
Balance at the beginning of the period	3,423,035	3,561,081
Repayment/Placement of notes	-	-
Equity component of convertible notes	(49,578)	(379,733)
Conversion to equity	-	-
Unwinding of finance costs	272,799	241,687
	3,646,256	3,423,035

*On 18 November 2013, the Company completed a capital raising of $4.0 million by issuing 4,000 unlisted Convertible Notes at an issue price of $1,000 each ("Senior Notes"). These notes were cancelled and reissued on 17 November such that they no longer require amounts held under guarantee. The reissued notes have an 8.0% coupon rate (original notes: 0%) and a 3.8 cents conversion price convertible to equity at any time at the discretion of the Senior Note holder. As at the reporting date there are 3,690 Senior Notes on issue which mature on 17 November 2017.

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

NOTE 12: INTEREST IN ASSOCIATE

Interests in associates are accounted for using the equity method of accounting. On 19 April 2016, the Company acquired a 35% stake in the Energy Made Clean group, a West Australian based solar, battery and microgrid developer for a payment of $4,676,027 of shares and cash. The purchase was made, under accounting standards in the accounts for the year ended 30 June 2016, with the investment treated as an associate and accounted for using the equity accounting method under which no goodwill was recognised. During the reporting period the investment continued to be accounted for under the equity accounting method until 1 December 2016. On 2 December 2016, the Company acquired the remaining 65% (refer to note 13) and thereafter was consolidated.

	Energy Made Clean	
	01.12.2016	**30.06.2016**
	$	**$**
Summarised statement of financial position		
Current assets	7,977,402	7,969,874
Non-current assets	1,097,362	1,061,098
Total assets	9,074,764	9,030,972
Current liabilities	6,628,817	4,901,016
Non-current liabilities	144,523	174,301
Total liabilities	6,773,340	5,075,317
Net assets	2,301,424	3,955,655
Summarised statement of profit or loss and other comprehensive income		
Revenue	7,070,350	16,588,016
Expenses	(8,724,581)	(16,921,078)
Loss before income tax	(1,654,231)	(333,062)
Income tax benefit	-	988,606
(Loss)/profit after income tax	(1,654,231)	655,544
Other comprehensive income	-	-
Total comprehensive (loss)/income	(1,654,231)	655,544
Reconciliation of the consolidated entity's carrying amount		
Opening carrying amount	5,047,919	4,676,027
Professional fees related to investment in associates	19,196	-
Share of (loss)/profit after income tax	(578,981)	371,892
Reversal of equity accounting on disposal of interest in associate	(4,488,134)	-
Closing carrying amount	-	5,047,919
Adjustment to fair value of interest in associate on 100% acquisition of associate		
Share identifiable net assets at fair value (refer to note 13)	805,498	-
Carrying amount prior to 100% acquisition	(4,488,134)	-
	(3,682,636)	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

NOTE 13: BUSINESS ACQUISITION

On 2 December 2016, the Company acquired the remaining 65% of the Energy Made Clean group (refer to Note 12) for consideration of $14,164,727 of shares, cash and contingent cash. Accordingly, under accounting standards at 2 December 2016, the equity accounting method was discontinued and the Energy Made Clean group was fully consolidated into the Company accounts. The value disclosed below in relation to the acquisition of EMC are provisional as at 31 December 2016 as the fair values of the identifiable assets and liabilities are yet to be finalised.

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

	Provisional Fair Value
	$
Cash and cash equivalents	1,751,678
Current trade and other receivables	3,779,271
Inventories	2,165,464
Other current assets	280,989
Property, plant and equipment	893,514
Other non-current assets	203,848
Interest bearing liabilities	(507,477)
Trade and other payables	(5,838,869)
Short-term provisions	(282,471)
Non-current trade and other payables	(144,523)
Total identifiable net assets at fair value	2,301,424
Previously acquired interest measured at fair value (refer to note 12)	(805,498)
Goodwill (refer to note 6)	12,668,801
Purchase consideration	14,164,727
Representing:	
Cash paid to vendor	1,600,000
Shares issued (refer to note 10)	11,885,714
Contingent cash	679,012
	14,164,727
Cash used to acquire business, net of cash acquired:	
Cash paid to vendor	1,600,000
Less: cash and cash equivalents acquired	(1,751,678)
Less: other non-current assets (deposits) acquired	(112,635)
Net cash used	(264,313)

NOTE 13: BUSINESS ACQUISITION (continued)

The amount of revenue and profit or loss of EMC (the acquiree), excluding inter-company transactions, since acquisition date included in the Consolidated Statement of Comprehensive Income for the reporting date to 31 December 2016 was:

- Revenue $511,610
- Loss $264,620

The amount of revenue and profit or loss of the Group, for the period to 31 December 2016, had the acquisition occurred on 1 July 2016 would have been:

- Consolidated revenue $4,685,467
- Consolidated loss $10,415,574

NOTE 14: INVENTORIES

The consolidated group's inventory can be summarised as follows:

	Group	
	01.12.2016	**30.06.2016**
	$	**$**
Energy Made Clean	4,078,264	-
	4,078,264	-

NOTE 15: OPERATING SEGMENTS

The consolidated group is organised into two operating segments based on differences in products and services provided:

- CETO wave energy technology – development of zero-emission electricity offshore from ocean swell; and
- Solar and battery project engineering and construction – delivery of microgrid projects.

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

These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ("CODM")) in assessing performance and in determining the allocation of resources. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements. However, the consolidated group's financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Intersegment transactions are on arm's length basis and are eliminated on consolidation. Intersegment loans are initially recognised at the consideration received, earn or incur no interest, and are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Interim period 31 December 2016	**CETO wave energy technology**	**Solar & battery engineering and construction**	**Total segments**	**Adjustments and eliminations**	**Consolidated**
Revenue					
External customers	256,827	511,610*	768,437	-	768,437
Inter-segment	-	967,132*	967,132	(967,132)	-
	256,827	1,478,742*	1,735,569	(967,132)	768,437
Segment loss	(1,970,065)	(264,620)*	(2,234,684)	(5,598,516)	(7,833,200)
Total assets	107,228,039	9,775,968	117,004,007	(1,518,699)	115,485,308
Total liabilities	5,731,734	7,739,171	13,470,905	2,127,557	15,598,462

**Only for the month of December 2016, which represents the portion of the reporting period post consolidation.*

No comparative information has been disclosed as 31 December 2016 is the first reporting period in which the Group's operations consisted of more than one operating segment. Prior to the acquisition of the EMC operations, the financial information presented in the statement of comprehensive income and statement of financial position was the same as that presented to the chief operating decision maker.

NOTE 16: EVENTS AFTER THE END OF THE INTERIM PERIOD

The following events occurred after the end of the interim period:

- On 15 February 2017, the Company completed a capital raising of $5.0 million by issuing 500 unlisted convertible notes at an issue price of $10,000 each ("Junior Notes"). The Junior Notes mature on 11 January 2020 and pay an 8.00% p.a. coupon. The Junior Notes are secured with Energy Made Clean Pty Ltd and are convertible at any time at a price of $0.08 per Ordinary Share.

- On 17 January 2017, £500,000 of funding was awarded by the government body Wave Energy Scotland to two wave energy research projects in which the Company is a partner.

- In February 2017, the $21 million loan facility with the Commonwealth Bank of Australia (refer to note 11) was terminated. No debt was drawn under the facility.

NOTE 17: COMMITMENTS AND CONTINGENCIES

Other than as disclosed in the interim financial report there have been no material changes to the contingencies or commitments disclosed in the 30 June 2016 annual report.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on page 6 to 21 are in accordance with the *Corporations Act 2001*, including:
   a. complying with Accounting Standard AASB 134: Interim Financial Reporting; and
   b. giving a true and fair view of the consolidated group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date.
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.

MICHAEL OTTAVIANO
Managing Director
Dated this 28^{th} day of February 2017

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Carnegie Clean Energy Ltd and its controlled entities (the consolidated entity) which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity, the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of a Financial Report*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of Carnegie Clean Energy Ltd and its controlled entities' financial position as at 31 December 2016 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*. As the auditor of Carnegie Clean Energy Ltd and its controlled entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Carnegie Clean Energy Ltd and its controlled entities is not in accordance with the *Corporations Act 2001* including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

(ii) complying with AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.

Crowe Horwath Perth

CROWE HORWATH PERTH

CYRUS PATELL
Partner

Signed at Perth, 28 February 2017