value from wastewater

EMEFCY GROUP LIMITED

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

Emefcy Group Limited
ABN 52 127 734 196

Annual report
for the year ended 31 December 2016

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Annual report - 31 December 2016

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Emefcy Group Limited
Corporate directory

Directors	Mr Richard Irving *Executive Chairman* Mr Eytan Levy *Managing Director & Chief Executive Officer (CEO)* Mr Ross Haghighat *Non-Executive Director* Mr Peter Marks *Non-Executive Director* Mr Robert Wale (appointed 5 April 2016) *Non-Executive Director*
Company Secretary	Mr Ross Kennedy
Registered Office	Suite 1, 1233 High Street Armadale VIC 3143 Australia Phone: +61 (0)3 9824 5254 Fax: +61 (0)3 9822 7735
Principal Place of Business	7 Ha'eshel Street Caesarea Industrial Park P.O. Box 3171 30889 Israel Phone: +972 4 6277555 Fax: +972 4 6277556
Share Registry	Boardroom Pty Ltd Level 12, 225 George Street, Sydney, New South Wales, 2000, Australia Phone: 1300 737 760 (local) Fax: +61 (0)2 9290 9600 (international)
Auditors	BDO East Coast Partnership Tower 4, Level 18, 727 Collins Street, Melbourne, Victoria, 3008, Australia
Solicitors	Hall & Wilcox Lawyers Level 11, Rialto South Tower, 525 Collins Street, Melbourne, Victoria, 3000, Australia
Bankers	National Australia Bank (NAB) Melbourne, Victoria, Australia
Securities Quoted	*Australian Securities Exchange* - Ordinary Fully Paid Shares (Code: EMC)
Website	www.emefcy.com

The directors present their report for the consolidated entity consisting of Emefcy Group Limited and the entities it controlled at the end of, or during, the year ended 31 December 2016. Throughout the report, the consolidated entity is referred to as the Group.

Directors

The following persons held office as directors of Emefcy Group Limited during the financial year:

Mr Richard Irving, Executive Chairman
Mr Eytan Levy, Managing Director & Chief Executive Officer (CEO)
Mr Ross Haghighat, Non-Executive Director
Mr Peter Marks, Non-Executive Director
Mr Robert Wale, Non-Executive Director (appointed 5 April 2016)
Mr Phillip Hains, Director (resigned 5 April 2016)

Principal activities

The Company's principal activities during the course of the financial year were:

- the research, development and commercialisation of innovative wastewater treatment systems incorporating Membrane Aerated Biofilm Reactor ("MABR") based wastewater treatment technology for use in decentralised settings;
- implementing the multi-faceted China strategy;
- implementing the US strategy based on an initial Recycle as a Service ("RaaS") development phase and appointment of regional manufacturing representatives;
- developing the larger scale SUBRE product ready for field testing; and
- progressing the Electrogenic Bio Reactor ("EBR") technology for potential use in certain industrial wastewater applications.

Aside from the global commercialisation of the MABR based wastewater treatment technologies and the commencement of activities to establish global manufacturing facilities in China, there were no other significant changes in the nature of the Company's principal activities during the financial year.

Dividends

No dividends have been paid during the financial year. The directors do not recommend that a dividend be paid in respect of the financial year (2015: $nil).

Review of operations

1 Global Commercialisation

Management has presented the innovative MABR based technology at numerous international exhibitions and conferences throughout the year, including the prestigious WEFTEC conference held in New Orleans in the USA, as well as exhibitions in Europe, Australia and Asia.

Numerous delegations have been hosted at the Group’s Caesarea Israel offices, manufacturing facility and nearby in-field demonstration sites.

As a result of these efforts, regional sales capabilities have been established on four continents:

• Middle East (Israel);
• Americas (US Virgin Islands, and a demonstration facility with Stanford University’s Codiga Resource Recovery Center);
• Africa (Ethiopia); and
• Asia (China).

Of all these markets, China offers the greatest near term growth opportunities. In February 2016, the Chinese Central Government released its next Five Year Plan which includes Central Government funding to increase the proportion of remote Chinese villages with wastewater treatment from 10% to 70%.

Review of operations (continued)

1 Global Commercialisation (continued)

The Company has entered into four strategic partnership distribution agreements in mainland China:

• Wuxi Municipal Design Institute, a subsidiary of Wuxi Guolian Environmental & Energy Group Co. Ltd. (“Wuxi Guolian”), a leading state-owned enterprise wastewater treatment plant operator and provider of environmental protection services throughout Jiangsu, mainland China, and international markets.
• Beijing Sinorichen Environmental Protection Corp. Ltd. (“Sinorichen”), a leading firm specialising in wastewater treatment consulting and engineering services, throughout Beijing Province and Northern China;
• Jiangsu Jinzi Environmental Technology Company, Ltd. (“Jinzi”), a leading environmental protection company focusing on the design, building and operation of wastewater treatment systems for rural communities in the Central and Southern Provinces of China;
• China Gezhouba Group Investment Holding Co., Ltd, ("CGGC INV"), a highly regarded global engineering group, is considering the utilisation of up to 10,000 Membrane Aerated Biofilm Reactor (MABR) Modules in the Hubei, Hebei, and Guangdong Provinces in rural China with initial projects under negotiation.

The next steps include the deployment of demonstration units to each of the distribution partners to confirm the technical performance capabilities of the Emefcy MABR technology under local conditions, assist in gaining provincial certifications and promote the technology to potential customers.

The Company’s first commercial installation of the MABR wastewater treatment solution was successfully inaugurated at Ha’Yogev, Israel on 19 September 2016.

Mr Wermus, CEO of the Yuvalei HaEmek municipality articulated his enthusiasm for Emefcy’s MABR solution which, for the first time, enables the community of Ha'Yogev the benefit of a state of the art treatment of their waste water with very low energy operating costs, as well as the supply of ample treated water for their agricultural irrigation needs. He further commented about Emefcy’s project having a range of unmatched key benefits, including lower commissioning costs, superior environmental performance, lower ongoing operating costs than its competitors, as well as being neighbourhood friendly and built from long life components.

This new municipal MABR facility serves the rural farming community of 1,000 homes, agricultural fields as well as local dairy needs. Its demographics are representative of hundreds of thousands of rural communities worldwide, especially in China, where under the current 5 Year plan, more than 110,000 such “off-grid” communities are currently seeking innovative, cost effective and decentralised wastewater treatment solutions.

On 27 January 2017, the official inauguration of the Group’s second MABR based wastewater treatment installation took place at Bordeaux in St Thomas, US Virgin Islands.

Mr. James E. Grum, Chief Engineer of Virgin Islands Wastewater Management Authority, expressed his satisfaction with the MABR solution and noted that it met every parameter originally declared in the initial specifications provided in Emefcy's proposal. He added that Emefcy’s sweet spot is having a range of unmatched key benefits, including lower commissioning costs, low maintenance, superior environmental performance, low energy requirements, as well as being neighbourhood friendly.

For this project Emefcy partnered with SD&C Inc, who served as the general contractor for the project, responsible for installing and commissioning the plant.

Mr. Tony Adibe, CEO of SD&C said, "We are excited to have teamed up with Emefcy to deliver this innovative and low energy wastewater treatment system to the US Virgin Islands. We look forward to this being a showcase to address the ever-growing wastewater treatment and reuse needs of municipalities and resorts throughout the Caribbean Islands."

2 Product development

A number of significant product development milestones were achieved during the year.

The Company’s first commercial installation of the MABR wastewater treatment solution was successfully inaugurated at Ha’Yogev, Israel on 19 September 2016.

Review of operations (continued)

2 Product development (continued)

The Company is now manufacturing a more efficient and cost effective second generation MABR wastewater treatment solution, incorporating a larger diameter spiral and improved product components.

Key benefits of the Emefcy MABR wastewater treatment solution include:

• Up to 90% lower energy costs than traditional biological process wastewater treatment and water reuse systems;
• Neighbourhood friendly characteristics including significant reduced noise levels, smaller land footprint and virtually no odour compared to traditional wastewater facilities;
• Modular design is readily scaleable and deployable to remote locations; and
• Being designed for decentralised systems, MABR has much lower capital expenditure requirements and operation costs, when compared to traditional centralised systems.

A third generation, and more cost effective MABR wastewater treatment solution is being designed specifically for manufacture and deployment in China later this year.

An even larger scale version of the MABR based wastewater treatment solution called “SUBRE” has been developed for deployment in existing municipal waste water treatment facilities - to substantially reduce the energy costs of wastewater treatment, and with much more friendly neighbourhood characteristics - especially with much reduced noise and odour levels. A prototype is currently undergoing field tests ahead of potential deployment later in 2017. The SUBRE product is estimated to have significant worldwide potential sales.

Work is continuing on the Electrogenic Bio Reactor (“EBR”) technology with a dedicated development team. The EBR has a laboratory pilot operating, and is planned to have a field pilot at the end of the year.

3 Manufacturing

The Group has made significant advances during the year in establishing manufacturing facilities at its Or’Akiva site in northern Israel. A full production team has been employed and QAQC systems implemented. Production units for sales, including demonstration units for China, are being manufactured at this facility.

As part of the integrated strategy for China, agreements have been entered into to establish a high volume, Group owned manufacturing facility in the Changzhou Industrial Park in Jiangsu Province on favourable terms. This facility is expected to be fully operational later in 2017.

Event since the end of the financial year

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

The Group expects to continue to roll out the commercialisation of MABR wastewater treatment solutions with a continuing focus on meeting the large market potential in China, and other developing countries. This includes the establishment of a high volume manufacturing facility in Changzhou China, which currently is underway.

The Group is also refining the business model and identifying potential market opportunities for the operation and maintenance of wastewater treatment solutions, and the offering of recycled water for reuse, referred to as “Reuse as a Service”.

Product development is also continuing, with the development of the third generation MABR wastewater treatment solution for manufacture in China, further field tests and commercial deployment of SUBRE and on-going research and development of the EBR product.

Information on directors

Richard Irving *Executive Chairman*	
Qualifications	B. Sc. (First class honours) in Electrical Engineering, Manchester University, UK M. Sc. Electrical Engineering, Manchester University, UK
Experience and expertise	Richard is based in Silicon Valley, co-founded Pond Venture Partners in 1997 and brings 30 years' experience in venture capital, business management, marketing and engineering with over 30 start-ups. Richard has participated in over $3B of IPOs, acquisitions, and private financings. Richard has worked in technology companies since 1982 including chip design at AT&T Bell Labs 1982-86, Marketing Dept Manager AMD 1986 - 1989, VP Graphics, Imaging & Multimedia at Brooktree 1990 - 1994 and has been self-employed at Irving International (technology consulting 1989 & 1994 - 1997). Richard joined the Board of Emefcy Group Limited on 18 December 2015 in the role of Executive Chairman.
Other current directorships	None
Former directorships in last 3 years	None
Special responsibilities	Executive Chairman Member of the Remuneration and Nomination Committee
Interest in shares	Richard has an indirect interest through Pond Venture Nominees III Limited in 28,944,080 shares in the Company.
Interest in options	Direct interest in 500,000 employee options with an exercise price of 30 cents and 500,000 employee options with an exercise price of 40 cents.
Contractual rights to shares	As noted above, Mr Irving has an indirect interest in Pond Venture Nominees III Limited, which is one of the Vendors of Emefcy Limited (Israel). Pursuant to the Emefcy - Savcor Share Purchase Agreement dated 8 October 2015, Pond Venture Nominees III Limited has an entitlement to Deferred Shares in the Company, subject to defined milestones being met. The first milestone has already been satisfied, resulting in the issue of a further 7,314,692 shares in the Company during the 2016 year. In the event of the second milestone being satisfied, Pond Venture Nominees III Limited will be issued a further 7,320,499 shares in the Company.

Information on directors (continued)

Eytan Levy *Managing Director and Chief Executive Officer*	
Qualifications	B. Sc. (cum laude) in Chemical Engineering, Technion, Israel MBA, Bar-Ilan University Israel
Experience and expertise	With 25 years' CEO experience, Eytan has been recognised as one of Israel's leading water technology entrepreneurs. Prior to founding Emefcy, Eytan was the co-founder and CEO of AqWise, leading AqWise's successful entry into the waste water treatment market, building strategic relationships with integrators and key market participants and positioning it as a recognised leader in advanced biological wastewater treatment. AqWise has over 350 installations in 30 countries. Eytan was also part of the founding team and a Venture Partner in Israel Cleantech Ventures, the leading venture capital fund focused on backing Israel's emerging cleantech technology companies. Eytan joined the Board of Emefcy Group Limited on 18 December 2015 in the role of Managing Director & CEO.
Other current directorships	None
Former directorships in last 3 years	None
Special responsibilities	Nil
Interest in shares	Direct interest in 9,267,810 ordinary shares
Interest in options	Direct interest in 1,000,000 employee options with an exercise price of AU 30 cents and 3,000,000 employee options with an exercise price of AU 40 cents
Contractual rights to shares	Mr Levy is one of the Vendors of Emefcy Limited (Israel). Pursuant to the Emefcy - Savcor Share Purchase Agreement dated 8 October 2015, Mr Levy has an entitlement to Deferred Shares in the Company, subject to defined milestones being met. In the event of the second milestone being satisfied, Mr Levy will be issued a further 3,104,551 shares in the Company.

Ross Haghighat *Non-Executive Director*	
Qualifications	B.Sc. and a Masters in Material Science in Organometallic Chemistry, Rutgers University (USA). MBA, Boston College - Carroll School of Management (USA)
Experience and expertise	Ross has in excess of 25 years' experience in product venturing with ten start-ups, including five exits and in excess of $4B in shareholder value created. Ross is based in Boston, Director of NASDAQ-listed Aduro Biotech, Managing Partner of Triton Systems, Inc., and served on Board of S12 Technologies and FRX Polymers.
Other current directorships	Aduro Biotech, Inc, Triton Systems, Inc, FRX Polymers.
Former directorships in last 3 years	None
Special responsibilities	Chair of the Remuneration and Nomination Committee and Member of the Audit and Risk Committee.
Interest in shares	None

Information on directors (continued)

Interest in options	Direct interest in 500,000 employee options with an exercise price of AU 30 cents and 500,000 employee options with an exercise price of AU 40 cents.
Contractual rights to shares	None

Peter Marks *Non-Executive Director*	
Qualifications	B.Ec, LLB and Graduate Diploma in Commercial Law, Monash University, Melbourne, Australia MBA degree from the University of Edinburgh, Scotland
Experience and expertise	Peter has in excess of 30 years' experience in corporate finance, specialising in capital raisings (for listed and unlisted companies), underwriting, IPOs and venture capital transactions, including KPMG Corporate Finance Ltd (Australia) and Merrill Lynch. Has acted as Director and Chairman for a number of listed entities in the ASX and AIM. Peter has been a Director of the Company since 12 March 2015.
Other current directorships	Prana Biotechnology Limited (listed on ASX and NASDAQ) and Noxopharm Ltd
Former directorships in last 3 years	Armadale Capital plc (listed on AIM)
Special responsibilities	Member of the Remuneration and Nomination Committee and Chair of the Audit and Risk Committee.
Interest in shares	Indirect interest in 1,854,403 shares
Interest in options	Direct interest in 500,000 options with an exercise price of 30 cents and 500,000 options with an exercise price of 40 cents. Indirect interest in 400,000 share options with an exercise price of 15 cents.
Contractual rights to shares	None

Information on directors (continued)

Phillip Hains *Non-Executive Director and Joint Company Secretary (resigned 5 April 2016)*	
Qualifications	Master of Business Administration from RMIT, Melbourne Australia and a Public Practice Certificate from the Institute of Chartered Accountants, Australia and New Zealand.
Experience and expertise	Phillip is a Chartered Accountant operating a specialist public practice, 'The CFO Solution'. The CFO Solution focuses on providing back-office support, financial reporting and compliance systems for listed public companies. A specialist in the public company environment, Mr Hains has served the needs of a number of company boards and their related committees. He has over 20 years' experience in providing businesses with accounting, administration, compliance and general management services.
Other current directorships	None
Former directorships in last 3 years	BKM Management Limited (ASX: BKM) from 7 December 2012 to 25 June 2014 West Wits Mining Limited (ASX: WWI) from 1 February 2011 to 3 May 2013
Special responsibilities	Member of the Audit and Risk Committee
Interest in shares	Indirect interest in 468,111 shares
Interest in options	Indirect interest in 250,000 share options with an exercise price of AU 15 cents.
Contractual rights to shares	None

Rob Wale *Non-Executive Director (appointed 5 April 2016)*	
Qualifications	Bachelor of Science (BSc), Mech. Eng, Uni of Wollongong (Aust).
Experience and expertise	Robert brings over 30 years of executive-level experience in the global water industry including strategic, business, sales, marketing and operations roles in Australia, USA, China and throughout the Asia Pacific region. Rob has managed international businesses ranging from early-stage start-ups to companies generating revenues of $400m per annum. He has served as General Manager of the Water Group at Lucas Engineering & Construction, Vice President for Asia-Pacific for Siemens Water Group, Managing Director for Veolia Water Services & Systems, Vice President, Sales & Marketing Asia-Pacific for US Filter, and General Manager and Vice President Technical and Business Development at Memtec Ltd. Since 2008, he has been Managing Director of BlueSand Consulting Pty Ltd, developing & reviewing water business strategies for companies, investors, multinational companies and banks. Robert has been a Director of the Company since 5 April 2016.
Other current directorships	Nil
Former directorships in last 3 years	None
Special responsibilities	Development of the RaaS business model.
Interest in shares	None

Information on directors (continued)

Interest in options	500,000 options over ordinary shares with an exercise price of 35 cents each
Contractual rights to shares	None

Company secretary

The company secretary is Ross Kennedy. Ross Kennedy was appointed to the position of company secretary on 23 December 2015. Ross was previously Company Secretary and Executive General Manager of St Barbara Limited for ten years. Ross is an experienced Company Secretary, holding the professional qualifications of Fellow Governance Institute of Australia; Fellow Australian Institute of Company Directors; and Chartered Accountant.

Phillip Hains resigned as Joint Company Secretary on 5 April 2016.

Meetings of directors

The number of meetings of the Group's Board of Directors and of each board committee held during the year ended 31 December 2016, and the number of meetings attended by each director were:

	Full Board		**Meetings of committees**			
			Audit		**Remuneration and Nomination**	
	A	**B**	**A**	**B**	**A**	**B**
Mr Richard Irving**	16	16	-	-	-	-
Mr Eytan Levy	15	16	3	4	1	1
Mr Ross Haghighat	16	16	4	4	1	1
Mr Peter Marks (appointed 5 April 2016)**	12	12	-	-	-	-
Mr Robert Wale**	16	16	-	-	-	-
Mr Phillip Hains (resigned 5 April 2016)	3	4	3	3	-	-

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year
** = Not a member of the relevant committee

Environmental regulation

The Company has deployed a MABR waste water solution in the US Virgin Islands, which is subject to USA EPA regulations. The consolidated entity is not subject to any other significant environmental regulation under Australian Commonwealth or State law, Israel law or any other foreign jurisdiction.

Remuneration report (Audited)

The directors present the Emefcy Group Limited 2016 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

(a) Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;

Remuneration report (Audited) (continued)

(a) Principles used to determine the nature and amount of remuneration (continued)

- performance linkage / alignment of executive compensation; and
- transparency.

The Remuneration and Nomination Committee is responsible for determining and reviewing remuneration arrangements for its Directors and Executives. The performance of the consolidated entity depends on the quality of its Directors and Executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Remuneration and Nomination Committee has established an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity, including:

(a) Alignment to shareholders' interests:
- has achievement of strategic goals as a core component of plan design;
- focuses on sustained growth in shareholder wealth, consisting of growth in share price and in time, delivering constant or increasing return on assets as well as focusing the executives on key non-financial drivers of value; and
- attracts and retains high calibre executives.

(b) Alignment to program participants' interests:
- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth; and
- provides a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of Non-Executive Directors and executive remuneration are separate.

Non-executive Directors remuneration

Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their role. Non-Executive Directors' fees and payments are reviewed annually by the Remuneration and Nomination Committee. The Remuneration and Nomination Committee may, from time to time, receive advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration. Non-Executive Directors may receive share options but do not receive other incentives.

Non-executive Directors may also be engaged on specific projects, on arms length terms, approved by the full Board with the relevant Director abstaining.

ASX listing rules require the aggregate Non-executive Directors remuneration be determined periodically by a general meeting. The most recent determination was that shareholders approved an aggregate remuneration of $US 385,000.

Executive remuneration

The consolidated entity aims to reward executives with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Remuneration report (Audited) (continued)

(a) Principles used to determine the nature and amount of remuneration (continued)

Executive remuneration (continued)

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Remuneration and Nomination Committee, based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

A short-term incentive ('STI') program is planned to be designed to align the targets of the business units with the targets of those executives responsible for meeting those targets. STI payments may be granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include meeting or exceeding budget goals for the year. The short term incentives payable in respect of 2016 include meeting or exceeding agreed strategic goals for the year.

Long-term incentives ('LTI') include share-based payments. An employee option plan was approved by shareholders on 17 November 2015. Options are awarded to executives as a long-term incentive and retention incentive measures. Employee options for the majority of the year have an exercise price calculated as the five day VWAP up to the date of the option grant, plus 10%. For Israeli employees, options commence vesting after twelve months service and are fully vested after three years and expire after four years. For non-Israeli employees, options vest 100% after three years and expire after four years. To be eligible to exercise performance options, an executive must remain in continuous employment with the company up to and including the exercise date.

Consolidated entity performance and link to remuneration

The Remuneration and Nomination Committee is of the opinion that the adoption of performance based compensation will continue to increase shareholder wealth if maintained over the coming years.

Key management personnel bonuses are awarded at the discretion of the Remuneration and Nomination Committee on the basis of the individual's performance during the financial year.

Directors consider that the option program and the exercise prices provide incentives to management and Directors which are aligned with the interests of shareholders to lift the value of the company in the medium term. Remuneration for employees is directly linked to the share price performance of the consolidated entity through the employee option program.

(b) Details of remuneration

Amounts of remuneration (shown in USD)

The following table shows details of the remuneration expense recognised for the Group's executive key management personnel for the current and previous financial year measured in accordance with the requirements of the accounting standards.

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Amounts of remuneration (shown in USD) (continued)

	Short-term benefits					**Post-employment benefits**		**Long-term benefits**	**Share-based payments**	
2016	**Cash salary and fees**					**Superannuation**	**Long service leave**	**Equity settled shares**	**Equity settled options**	**Total**
	Standard	**Special projects***	**Total cash salary and fees inclusive of special projects**	**Bonus**	**Non-monetary**					
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Non-executive directors:										
Peter Marks	60,234	44,618	104,852	-	-	-	-	-	80,045	184,897
Phillip Hains	11,164	-	11,164	-	-	-	-	-		11,164
Robert Wale	22,544	15,029	37,573	-	-	-	-	-	69,366	106,939
Ross Haghighat	74,586	55,773	130,359	-	-	-	-	-	77,202	207,561
Total	168,528	115,420	283,948	-	-	-	-	-	226,613	510,561
Executive directors:										
Richard Irving	130,136	55,773	185,909	-	-	-	-	-	77,202	263,111
Eytan Levy	244,591	-	244,591	114,896	-	44,641	-	-	186,878	591,006
Total	374,727	55,773	430,500	114,896	-	44,641	-	-	264,080	854,117
Other key management personnel:										
Ross Kennedy	59,863	7,436	67,299	7,436	-	-	-		4,538	79,273
Ronen Shechter	172,089	-	172,089	24,606	-	30,709	-	-	-	227,404

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Amounts of remuneration (shown in USD) (continued)

2016	**Short-term benefits**					**Post-employment benefits**		**Long-term benefits**	**Share-based payments**	
	Cash salary and fees					**Superannuation**	**Long service leave**	**Equity settled shares**	**Equity settled options**	**Total**
	Standard	**Special projects***	**Total cash salary and fees inclusive of special projects**	**Bonus**	**Non-monetary**					
	$	$	$	$	$	$	$	$	$	$
Yaron Bar-Tal	162,771	-	162,771	24,996	-	24,347	-	-	14,781	226,895
Lior Zitershpiler	92,478	-	92,478	23,131	-	15,560	-	-	9,854	141,023
Ilan Wilf	93,526	-	93,526	23,522	-	13,710	-	-	84,308	215,066
Total	580,727	7,436	588,163	103,691	-	84,326	-	-	113,481	889,661
Grand total	1,123,982	178,629	1,302,611	218,587	-	128,967	-	-	604,174	2,254,339

**Short-term cash salary and fee remuneration, classified as 'special projects,' comprises remuneration paid to KMP's in relation to one-off, ad hoc projects throughout the year. Such remuneration is not expected to re-occur in the future.*

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Amounts of remuneration (shown in USD) (continued)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		
2015	**Cash salary and fees****	**Bonus**	**Non-monetary**	**Superannuation**	**Long service leave**	**Equity settled shares**	**Equity settled options**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Non-executive directors:								
Peter Marks	36,490	-	-	-	-	-	10,291	46,781
Phillip Hains	36,490	-	-	-	-	-	4,650	41,140
Ross Haghighat	1,530	-	-		-	-	2,851	4,381
Vincent Savage	21,894						4,650	26,544
Total	96,404	-	-	-	-	-	22,442	118,846
Executive directors:								
Richard Irving	3,570	-	-		-	-	2,851	6,421
Eytan Levy	7,239	-	-		-	-	86,058	93,297
Total	10,809	-	-	-	-	-	88,909	99,718
Other key management personnel:								
Ross Kennedy	1,989	-	-		-		356	2,345
Ronen Shechter	6,960	-	-		-	-	-	6,960
Yaron Bar-Tal	5,484						473	5,957
Lior Zitershpiler	2,302						316	2,618
Total	16,735	-	-	-	-	-	1,145	17,880
Grand total	123,948	-	-	-	-	-	112,496	236,444

***There were no special projects in 2015.*

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Issue of shares

The number of shares in the company held during the period by each Director and other Key Management Personnel, including their personally related parties, are set out below.

2016	Balance at the start of the year	Received as compensation	Options exercised	Net change other	Total
Non-Executive Directors					
Peter Marks	1,547,052	-	307,351	-	1,854,403
Phillip Hains (resigned 5 April 2016)	468,111	-	-	(468,111)	-
Robert Wale (appointed 5 April 2016)	-	-	-	-	-
Ross Haghighat	-	-	-	-	-
	2,015,163	**-**	**307,351**	**(468,111)**	**1,854,403**
Executive Directors					
Richard Irving	21,629,388	-	-	7,314,692	28,944,080
Eytan Levy	6,409,416	-	-	2,858,394	9,267,810
	28,038,804	**-**	**-**	**10,173,086**	**38,211,890**
Key Management Personnel					
Ross Kennedy	210,000	-	-	-	210,000
Ronen Shechter	6,409,416	-	-	2,858,394	9,267,810
Yaron Bar-Tal	269,183	-	-	512,966	782,149
Lior Zitershpiler	224,319	-	-	101,577	325,896
Ilan Wilf	-	-	-	-	-
	7,112,918	**-**	**-**	**3,472,937**	**10,585,855**
Total	**37,166,885**	**-**	**307,351**	**13,177,912**	**50,652,148**

2015	Balance at the start of the year	Received as compensation	Options exercised	Net change other	Total
Directors					
Peter Marks	1,297,052	-	-	250,000	1,547,052
Phillip Hains (resigned 5 April 2016)	418,111	-	-	50,000	468,111
	1,715,163	**-**	**-**	**300,000**	**2,015,163**
Executive directors					
Richard Irving	21,629,388	-	-	-	21,629,388
Eytan Levy	6,409,416	-	-	-	6,409,416
	28,038,804	**-**	**-**	**-**	**28,038,804**
Ross Kennedy	210,000	-	-	-	210,000
Ronen Shechter	6,409,416	-	-	-	6,409,416
Yaron Bar-Tal	269,183	-	-	-	269,183
Lior Zitershpiler	224,319	-	-	-	224,319
	7,112,918	**-**	**-**	**-**	**7,112,918**
Total	**36,866,885**	**-**	**-**	**300,000**	**37,166,885**

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Issue of options

The number of options over ordinary shares in the company held during the period by each Director and other Key Management Personnel, including their personally related parties, are set out below. An Employee Option Plan was approved by shareholders on 17 November 2015. Refer to description of Long Term Incentives under executive remuneration for details.

2016	Balance at start of year	Granted as compensation	Option Expired	Net change other	Balance at end of year	Vested & Exercisable*	Escrowed / Unvested
Directors							
Peter Marks	1,707,351	-	-	(307,351)	1,400,000	1,400,000	-
Phillip Hains (resigned 5 April 2016)	326,870	-	-	(326,870)	-	-	-
Robert Wale (appointed 5 April 2016)	-	500,000	-	-	500,000	-	500,000
Ross Haghighat	1,000,000	-	-	-	1,000,000	1,000,000	-
Richard Irving	1,000,000	-	-	-	1,000,000	1,000,000	-
Eytan Levy	4,000,000	-	-	-	4,000,000	1,000,000	3,000,000
	8,034,221	**500,000**	**-**	**(634,221)**	**7,900,000**	**4,400,000**	**3,500,000**
Key Management Personnel							
Ross Kennedy	200,000	-	-	-	200,000	-	200,000
Ronen Shechter	-	-	-	-	-	-	-
Yaron Bar-Tal	265,768	-	-	-	265,768	88,584	177,184
Lior Zitershpiler	177,178	-	-	-	177,178	59,090	118,088
Ilan Wilf	-	1,500,000	-	-	1,500,000	-	1,500,000
	642,946	**1,500,000**	**-**	**-**	**2,142,946**	**147,674**	**1,995,272**
Total	**8,677,167**	**2,000,000**	**-**	**(634,221)**	**10,042,946**	**4,547,674**	**5,495,272**

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Issue of options (continued)

2015	Balance at start of year	Granted as compensation	Option Expired	Net change other	Balance at end of year	Vested & Exercisable*	Escrowed / Unvested
Directors							
Peter Marks	-	1,707,351	-	-	1,707,351	707,351	1,000,000
Phillip Hains (resigned 5 April 2016)	-	326,870	-	-	326,870	326,870	-
Ross Haghighat	-	1,000,000	-	-	1,000,000	-	1,000,000
Richard Irving	-	1,000,000	-	-	1,000,000	-	1,000,000
Eytan Levy	-	4,000,000	-	-	4,000,000	1,000,000	3,000,000
	-	**8,034,221**	**-**	**-**	**8,034,221**	**2,034,221**	**6,000,000**
Key Management Personnel							
Ross Kennedy	-	200,000	-	-	200,000	-	200,000
Ronen Shechter	-	-	-	-	-	-	-
Yaron Bar-Tal	-	265,768	-	-	265,768	-	265,768
Lior Zitershpiler	-	177,178	-	-	177,178	-	177,178
	-	**642,946**	**-**	**-**	**642,946**	**-**	**642,946**
Total	**-**	**8,677,167**	**-**	**-**	**8,677,167**	**2,034,221**	**6,642,946**

In accordance with AASB2 Share Based Payments and the relevant International Guidance Instructions, the above table includes employee options that have been agreed to be issued but were not formally granted as at 31 December 2015 and 31 December 2016.

*Options vested and exercisable as at 31 December

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Share-based payments granted as compensation during the year

For the period, options were issued to directors as approved by shareholders and to Key Management Personnel under the Savcor Group Limited Employee Share Option Plan (2015). In accordance with AASB 2 Share Based Payments IGI 4, the tables include employee options agreed to be issued up to and including 31 December 2016, even though for registration with Israeli tax authorities and other reasons, they may not have been formally granted as at 31 December 2016. Key Management Personnel options vest subject to the employee continuing to be employed by the company at the vesting date.

Details of options granted to directors and other key management personnel as compensation during the reporting period are as follows:

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Share-based payments granted as compensation during the year (continued)

2016	Grant date	No. of options granted	No. of options vested	Fair value per option at grant date	Exercise price	Expiry date	Date exercisable	Value of options at grant date
				US$	AU$			US$
Non-Executive Directors								
Peter Marks	-	-	-	-	-		-	-
Phillip Hains (resigned 5 April 2016)	-	-	-	-	-	-	-	-
Robert Wale (appointed 5 April 2016)	11/04/2016	500,000	-	0.2592	250,000 AU0.35	13/04/2020	13/04/2017	64,795
				0.2592	250,000 AU0.35	13/04/2020	13/04/2018	64,795
Ross Haghighat	-	-	-	-	-	-	-	-
Executive Directors								
Richard Irving	-	-	-	-	-	-	-	-
Eytan Levy	-	-	-	-	-	-	-	-
Total		**500,000**	**-**					**129,590**
Key Management Personnel								
Ross Kennedy	-	-	-	-	-	-	-	-
Ronen Shechter	-	-	-	-	-	-	-	-
Yaron Bar-Tal	-	-	-	-	-	-	-	-
Lior Zitershpiler	-	-	-	-	-	-	-	
Ilan Wilf	15/06/2016	1,000,000	-	0.3881	AU0.93	31/05/2020	17/06/2017	388,124
	01/11/2016	500,000	-	0.5344	AU0.74	31/10/2019	01/11/2017	267,193
Total	**-**	**1,500,000**	**-**	**-**	**-**	**-**	**-**	**784,907**

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Share-based payments granted as compensation during the year (continued)

For the period 1 January 2015 to 17 December 2015, options were issued to directors as part of the director remuneration packages, and as the company was in the early stages of restructuring, there are no performance conditions associated with these options.

Details of options granted to directors and other key management personnel as compensation during the prior financial year are as follows:

1 January 2015 to 17 December 2015	Grant date	No. of options granted	No. of options vested	Fair value per option at grant date	Exercise price	Expiry date	Date exercisable	Value of options at grant date
				US$	AU$			US$
Directors								
Peter Marks	05/06/2015	400,000	400,000	0.0186	AU 0.15	05/06/2017	05/06/2015	7,440
Phillip Hains	05/06/2015	250,000	250,000	0.0186	AU 0.15	05/06/2017	05/06/2015	4,650
Vincent Savage	05/06/2015	250,000	250,000	0.0186	AU 0.15	05/06/2017	05/06/2015	4,650
Total	**-**	**900,000**	**900,000**	**-**	**-**	**-**	**-**	**16,740**

**The historical value of the 900,000 options has been eliminated at acquisition date 18 December 2015.*

For the period 18 December 2015 to 31 December 2015, options were issued to directors as approved by shareholders and to Key Management Personnel under the Savcor Group Limited Employee Share Option Plan (2015). In accordance with AASB 2 Share Based Payments IGI 4, the tables include employee options agreed to be issued up to and including 31 December 2015, even though for registration with Israeli tax authorities and other reasons, that may not have been formally granted as at 31 December 2015. Key management personnel options vest subject to the employee continuing to be employed by the company at the vesting date. As employee options form part of the remuneration package of employees, and the company is in the early stages of commercialisation, there were no performance conditions associated with these options in 2015.

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Share-based payments granted as compensation during the year (continued)

18 to 31 December 2015	Grant date	No. of options granted	No. of options vested	Fair value per option at grant date	Exercise price	Expiry date	Date exercisable	Value of options at grant date
				US$	AU$			US$
Non-Executive Directors								
Peter Marks	18/12/2015	1,000,000	-	0.0776	500,000 AU0.30	18/12/2018	23/12/2016*	38,812
				0.0824	500,000 AU0.40	18/12/2019	23/12/2016	41,233
Phillip Hains	-	-	-	-	-	-	-	-
Ross Haghighat	18/12/2015	1,000,000	-	0.0776	500,000 AU0.30	18/12/2018	23/12/2016*	38,812
				0.0824	500,000 AU0.40	18/12/2019	23/12/2016	41,233
Executive Directors								
Richard Irving	18/12/2015	1,000,000	-	0.0776	500,000 AU0.30	18/12/2018	23/12/2016*	38,812
				0.0824	500,000 AU0.40	18/12/2019	23/12/2016	41,233
Eytan Levy	Tranche 1 18/12/2015	2,000,000	-	0.0776	500,000 AU0.30	18/12/2018	18/12/2015*	38,812
				0.0776	500,000 AU0.30	18/12/2018	01/01/2017	38,812
				0.0824	500,000 AU0.40	18/12/2019	18/12/2015	41,233
				0.0824	500,000 AU0.40	18/12/2019	01/01/2018	41,233
	Tranche 2 23/12/2015	2,000,000	-	0.0678	1,000,000 AU0.40	23/12/2019	23/12/2017	67,766
				0.0933	1,000,000 AU0.40	23/12/2020	23/12/2019	93,281
		7,000,000	**-**					**561,272**
Key Management Personnel								
Ross Kennedy	23/12/2015	200,000	-	0.0767	100,000 AU0.30	23/12/2019	23/12/2018	7,699

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Share-based payments granted as compensation during the year (continued)

18 to 31 December 2015	Grant date	No. of options granted	No. of options vested	Fair value per option at grant date	Exercise price	Expiry date	Date exercisable	Value of options at grant date
				US$	AU$			US$
				0.0678	100,000 AU0.40	23/12/2019	23/12/2018	6,777
Ronen Shechter	-	-	-	-	-	-	-	-
Yaron Bar-Tal	23/12/2015	265,768	-	0.0767	132,884 AU0.30	23/12/2019	23/12/2018	10,191
				0.0678	132,884 AU0.40	23/12/2019	23/12/2018	9,005
Lior Zitershpiler	23/12/2015	177,178	-	0.0767	88,589 AU0.30	23/12/2019	23/12/2018	6,794
				0.0678	88,589 AU0.40	23/12/2019	23/12/2018	6,003
Total	**-**	**642,946**	**-**	**-**	**-**	**-**	**-**	**46,469**

**Subject to ASX mandatory escrow for 24 months from 23 December 2015*

Remuneration report (Audited) (continued)

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Richard Irving
Title:	Executive Chairman
Agreement commenced:	December 18, 2015. Mr Irving was previously Non-Executive Chairman of Emefcy Limited Israel.
Term of agreement:	Open
Details:	Remuneration for the year ending 31 December 2016 comprises AU$140,000 fees p.a. to 31 May 2016 and AU$200,000 p.a. from 1 June 2016 as Executive Director. Remuneration is reviewed annually by the Remuneration and Nomination Committee.

Name:	Eytan Levy
Title:	Managing Director and Chief Executive Officer
Agreement commenced:	December 18, 2015. Mr Levy joined Emefcy Limited Israel in November 15, 2007.
Term of agreement:	Notice period by either party of 90 Days
Details:	Base salary for the year ending 31 December 2016 comprises of AU$343,500 including superannuation to 30 June 2016 and AU$434,400 including superannuation from 1 July 2016, to be reviewed annually by the Remuneration and Nomination Committee.

Name:	Ross Haghighat
Title:	Non-Executive Director
Agreement commenced:	December 18 2015
Term of agreement:	Open
Details:	Non-executive Director fees of AU$60,000 to 31 May 2016 and AU$125,000 from 1 June 2016. Remuneration is reviewed annually by the Remuneration and Nomination Committee.

Name:	Peter Marks
Title:	Non-Executive Director
Agreement commenced:	May 12 2015
Term of agreement:	Open
Details:	Non-Executive Director fees of AU$60,000 to 31 May 2016 and AU$95,000 from 1 June 2016 (including Committee fees). Remuneration is reviewed annually by the Remuneration and Nomination Committee.

Name:	Phillip Hains
Title:	Non-Executive Director and Company Secretary
Agreement commenced:	May 12 2015
Term of agreement:	Open
Details:	Remuneration for Non-executive Directors is currently set at A$60,000. Remuneration is reviewed annually by the Remuneration and Nomination Committee.

Name:	Robert Wale
Title:	Non-Executive Director
Agreement commenced:	April 5 2016
Term of agreement:	Open
Details:	Remuneration for Non-executive Directors is currently set at A$60,000. Mr. Wale's consulting firm was engaged in a special purpose project at the rate of AU$10,000 per month for three months from 1 October 2016. Remuneration is reviewed annually by the Remuneration and Nomination Committee.

Remuneration report (Audited) (continued)

Service agreements (continued)

Name: Ross Kennedy
Title: Company Secretary & Advisor to the Board
Agreement commenced: December 24 2015
Term of agreement: Notice period by either party of 60 days.
Details: Mr Kennedy receives fees through a private consulting company of A$6,500 per month to 31 July 2016 and AU$8,000 per month from 1 August 2016. An additional AU$10,000 per month for special purpose project work from 1 December 2016.

Name: Ronen Shechter
Title: Chief Technology Officer, Emefcy Limited
Agreement commenced: Mr Shechter joined Emefcy Limited Israel in November 15, 2007
Term of agreement: Notice period by either party of 90 Days
Details: Base salary for the year ending 31 December 2016 of US$202,800 including superannuation, to be reviewed annually by the Remuneration and Nomination Committee.

Name: Yaron Bar-Tal
Title: Vice President of Engineering, Emefcy Limited
Agreement commenced: Mr Bar-Tal joined Emefcy Limited Israel in May 8, 2013
Term of agreement: Notice period by either party of 90 Days
Details: Base salary for the year ending 31 December 2016 of US$187,120 including superannuation, to be reviewed annually by the Remuneration and Nomination Committee.

Name: Lior Zitershpiler
Title: Vice President of Finance
Agreement commenced: Mr Zitershpiler joined Emefcy Limited Israel in March 16, 2014
Term of agreement: Notice period by either party of 30 Days
Details: Base salary for the year ending 31 December 2016 comprises of US$99,150 to July 2016 and US$120,450 from 1 August 2016 including superannuation, to be reviewed annually by the Remuneration and Nomination Committee.

Name: Ilan Wilf
Title: Vice President of Global Sales and Business Development, Emefcy Limited
Agreement commenced: Mr Ilan Wilf joined Emefcy Limited Israel in May 30, 2016
Term of agreement: Notice period by either party of 60 Days
Details: Base salary for the year ending 31 December 2016 of US$174,200 including superannuation, to be reviewed annually by the Remuneration and Nomination Committee.

[This concludes the Remuneration Report, which has been audited]

Shares under option

Unissued ordinary shares

Unissued ordinary shares of Emefcy Group Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
5 June 2015	5 June 2017	AU 15 cents	650,000
18 December 2015	18 December 2018	AU 30 cents	2,500,000
18 December 2015	18 December 2019	AU 40 cents	2,500,000
28 January 2016	31 July 2018	AU 30 cents	2,000,000
28 January 2016	31 January 2019	AU 40 cents	2,000,000
11 April 2016	13 April 2020	AU 35 cents	500,000
29 February 2016	23 December 2019	AU 30 cents	431,473
29 February 2016	23 December 2019	AU 40 cents	431,473
29 February 2016	28 February 2020	AU 30 cents	100,000
29 February 2016	29 February 2020	AU 40 cents	100,000
23 March 2016	23 March 2020	AU 30 cents	75,000
23 March 2016	23 March 2020	AU 40 cents	75,000
23 March 2016	3 May 2016	AU 30 cents	50,000
23 March 2016	12 April 2020	AU 40 cents	50,000
17 May 2016	16 May 2020	AU 59 cents	400,000
17 May 2016	28 May 2020	AU 59 cents	100,000
18 May 2016	18 May 2020	AU 40 cents	1,000,000
18 May 2016	18 May 2021	AU 40 cents	1,000,000
15 June 2016	31 May 2020	AU 93 cents	1,000,000
25 July 2016	31 July 2018	AU 64 cents	1,800,000
25 July 2016	25 July 2020	AU 79 cents	250,000
25 August 2016	25 July 2020	AU 87 cents	325,000
1 August 2016	1 August 2018	AU 70 cents	55,000
23 September 2016	25 September 2020	AU 1.00 dollar	200,000
27 October 2016	31 October 2019	AU 64 cents	100,000
27 October 2016	26 October 2020	AU 1.07 dollars	350,000
1 November 2016	31 October 2020	AU 74 cents	500,000
23 September 2016	9 November 2020	AU 1.00 dollar	200,000
9 February 2017	9 February 2021	AU 1.00 dollar	350,000
27 February 2017	10 January 2021	AU 0.84 cents	25,000
1 March 2017	20 December 2020	AU 0.87 cents	75,000
			19,192,946

Insurance of officers and indemnities

(a) Insurance of officers

The company has indemnified the Directors and executives of the company for costs incurred, in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the Directors and executives of the company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Insurance of officers and indemnities (continued)

(b) Indemnity of auditors

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to 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 part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor (BDO East Coast Partnership) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

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 27.

Corporate Governance Statement

In accordance with ASX listing Rule 4.10.3, the Company's 2016 Corporate Governance Statements can be found on its website http://www.emefcy.com/ir-related-news-and-links/

For and on behalf of the Directors

Eytan Levy
Managing Director and CEO
30th March 2017
Israel

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Australia

DECLARATION OF INDEPENDENCE BY DAVID GARVEY TO THE DIRECTORS OF EMEFCY GROUP LIMITED

As lead auditor of Emefcy Group Limited for the year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Emefcy Group Limited and the entities it controlled during the period.

David Garvey

Partner

BDO East Coast Partnership

Melbourne, 30 March 2017

Emefcy Group Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2016

	Notes	Consolidated entity 2016 $	2015 $
Revenues			
Operating revenue	2	792,424	-
Interest revenue		19,234	1,179
Expenses			
Cost of sales		(2,007,202)	-
Research and development expenses		(2,044,774)	-
Sales and marketing expenses		(949,818)	(125,705)
Administrative expenses		(1,909,589)	(553,637)
Corporate consulting fees		(1,443,547)	(99,700)
Director expense		(1,036,615)	(90,622)
Legal expenses		(254,026)	(76,432)
Amortisation and depreciation		(298,828)	(70,922)
Listing expense recognised on acquisition	12	(1,000,000)	(7,801,624)
Finance costs		(11,711)	(32,520)
Foreign exchange gain / (loss)		1,079,544	(238,517)
Loss before income tax		**(9,064,908)**	**(9,088,500)**
Income tax expense	4	-	-
Loss for the year		**(9,064,908)**	**(9,088,500)**
Other comprehensive income			
Items that may be reclassfied to profit or loss:			
Exchange differences on translation of foreign operations		(881,143)	226,173
Other comprehensive income / (loss) for the year net of tax		**(881,143)**	**226,173**
Total comprehensive loss for the year		**(9,946,051)**	**(8,862,327)**
Total comprehensive loss for the year is attributable to:			
Owners of Emefcy Group Limited		(9,946,051)	(8,862,327)
Losses per share for profit from continuing operations attributable to the ordinary equity holders of the Group:			
Basic loss per share	25	(0.04)	(0.13)
Diluted loss per share	25	(0.04)	(0.13)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes. All amounts are presented in US dollars unless stated differently.

Emefcy Group Limited
Consolidated Statement of Financial Position
As at 31 December 2016

	Notes	Consolidated entity 2016 $	Consolidated entity 2015 $
ASSETS			
Current assets			
Cash and cash equivalents	5	22,870,848	8,478,927
Short term deposits		114,706	-
Restricted cash		18,761	32,127
Trade and other receivables	6	712,609	204,206
Inventories	7	452,454	194,969
Prepayments		205,023	68,137
Total current assets		**24,374,401**	**8,978,366**
Non-current assets			
Other receivables		49,373	2,357
Property, plant and equipment	8	1,039,460	823,720
Intangible assets	9	2,133,548	2,286,877
Total non-current assets		**3,222,381**	**3,112,954**
Total assets		**27,596,782**	**12,091,320**
LIABILITIES			
Current liabilities			
Trade and other payables	10	1,371,331	617,519
Provisions	11	123,113	-
Other financial liabilities	12	1,000,000	-
		2,494,444	**617,519**
Total current liabilities		**2,494,444**	**617,519**
Non-current liabilities			
Other payables	10	1,038,689	1,111,745
Other financial liabilities	12	-	1,000,000
Total non-current liabilities		**1,038,689**	**2,111,745**
Total liabilities		**3,533,133**	**2,729,264**
Net assets		**24,063,649**	**9,362,056**
EQUITY			
Contributed equity	13	53,129,419	28,481,775
Other reserves	14	(654,970)	226,173
Accumulated losses		(28,410,800)	(19,345,892)
Total equity		**24,063,649**	**9,362,056**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Emefcy Group Limited
Consolidated Statement of Changes in Equity
For the year ended 31 December 2016

Consolidated entity	Notes	**Contributed equity $**	**Other reserves $**	**Accumulated losses $**	**Total $**
Balance at 1 January 2015		**12,660,392**	**-**	**(10,257,392)**	**2,403,000**
Loss for the period		-	-	(9,088,500)	(9,088,500)
Other comprehensive profit / (loss)		-	226,173	-	226,173
Total comprehensive income for the year		**-**	**226,173**	**(9,088,500)**	**(8,862,327)**
Transactions with owners in their capacity as owners:					
Issue of ordinary shares, net of transaction costs	13	15,727,586	-	-	15,727,586
Issue of options	13	93,797	-	-	93,797
		15,821,383	**-**	**-**	**15,821,383**
Balance at 31 December 2015		**28,481,775**	**226,173**	**(19,345,892)**	**9,362,056**
Balance at 1 January 2016		**28,481,775**	**226,173**	**(19,345,892)**	**9,362,056**
Loss for the period		-	-	(9,064,908)	(9,064,908)
Other comprehensive profit / (loss)		-	(881,143)	-	(881,143)
Total comprehensive income for the year		-	**(881,143)**	**(9,064,908)**	**(9,946,051)**
Transactions with owners in their capacity as owners:					
Issue of ordinary shares, net of transaction costs	13	22,946,283	-	-	22,946,283
Issue of options	13	1,701,361	-	-	1,701,361
		24,647,644	**-**	**-**	**24,647,644**
Balance at 31 December 2016		**53,129,419**	**(654,970)**	**(28,410,800)**	**24,063,649**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Emefcy Group Limited
Consolidated Statement of Cash Flows
For the year ended 31 December 2016

	Notes	Consolidated entity 2016 $	Consolidated entity 2015 $
Cash flows from operating activities			
Receipt from customers (inclusive of GST)		284,021	-
Royalties paid to chief scientist office		(12,486)	-
Payments to suppliers and employees (inclusive of GST)		(7,452,420)	(518,822)
Interest received		19,234	1,179
Net cash (outflow) from operating activities	16	**(7,161,651)**	**(517,643)**
Cash flows from investing activities			
Payments for property, plant and equipment		(368,031)	(5,579)
Refund/ (Payment) of long term lease deposit		(47,016)	4,812
Receipt from restricted cash		13,366	-
Cash consideration of acquisition		(1,000,000)	(1,000,000)
Capitalisation of research and development expenses		-	(1,221,648)
Funds transferred to term deposit		(114,706)	-
Net cash (outflow) from investing activities		**(1,516,387)**	**(2,222,415)**
Cash flows from financing activities			
Proceeds from issues of ordinary shares		22,951,026	10,634,076
Transactions costs related to issue of ordinary shares		(86,260)	(1,062,533)
Net cash inflow from financing activities		**22,864,766**	**9,571,543**
Net increase in cash and cash equivalents		14,186,728	6,831,485
Cash and cash equivalents at the beginning of the financial year		8,478,927	1,617,000
Effects of exchange rate changes on cash and cash equivalents		205,193	30,442
Cash and cash equivalents at end of year		**22,870,848**	**8,478,927**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

(a) Corporate information

The Financial Report of Emefcy Group Limited and its controlled entities (the "Group") for the year ended 31 December 2016 was authorised for issue in accordance with a resolution of the Directors on the 30th day of March 2017.

Emefcy Group Limited is a for profit listed public company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX"). The Company's principal activities are research, development and commercialisation of wastewater treatment solutions.

(b) Basis of preparation

These general purpose Financial Statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the international accounting standards board.

The financial report has been prepared on an accruals basis and is based on historical costs. The financial report is presented in United States Dollars, which is the Group's presentation currency. All values are rounded to the nearest dollar unless otherwise stated.

Management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. 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.

Judgements made by management in the application of Australian Accounting Standards that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements (refer to Note 1 (aa)).

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

(i) Going concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

(ii) New and amended standards adopted by the group

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or financial position of the consolidated entity.

All other accounting standards adopted by the Group are consistent with the most recent Annual Report for the year ended 31 December 2015.

1 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

(iii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9: *Financial Instruments* and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018)

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specially, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: *Amendments to Australian Accounting Standards* - Effective Date of AASB 15)

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: *Accounting Policies, Changes in Accounting Estimates and Errors* (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 16: *Leases* (applicable to annual reporting periods beginning on or after 1 January 2019)

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

1 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

(iii) New standards and interpretations not yet adopted (continued)

The main changes introduced by the new Standard include:

• recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
• depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
• variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
• by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
• additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

All other pending Standards issued have no application to the Group.

(c) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

(e) 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. The following specific recognition criteria must also be met before revenue is recognised.

Interest - control of the right to receive the interest payment.

(f) Contract revenue

Contract revenue and expenses are recognised in accordance with the percentage of completion method. For fixed price contracts, the stage of completion is measured by reference to expenditure incurred to date as a percentage of estimated total expenditure for each contract.

Where it is probable that a loss will arise from the contract, the excess of total costs over revenue is recognised immediately as an expense.

1 Summary of significant accounting policies (continued)

(f) Contract revenue (continued)

Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

(g) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Note 10 provides further information on how the group accounts for government grants.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is expected to compensate.

Grants received from the Government of Israel that are required to be repaid by payment of royalties on sales revenue or refunded if relevant conditions are not met are recorded as a financial liability (refer to Note 10 for further details).

(h) Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

(i) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Other long-term employee benefit obligations

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

Under AASB 2 Share Based Payments, the consolidated entity must recognise the fair value of shares granted to directors, employees and consultants as remuneration as an expense on a pro-rata basis over the vesting period in profit or loss with a corresponding adjustment to equity.

The consolidated entity provides benefits to employees (including directors) of the consolidated entity in the form of share based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions"). The cost of these equity-settled transactions with employees (including directors) is measured by reference to fair value at the date they are granted. The fair value is determined using the binomial model.

(j) Cash and cash equivalents

Cash and short-term deposits in the Consolidated Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Consolidated Statement of Cash Flow, cash and cash equivalents consist of cash and cash equivalents as defined above.

1 Summary of significant accounting policies (continued)

(k) Financial asset

Financial assets in the Consolidated Statement of Financial Position comprises of short-term deposits with an original maturity of three months or more.

(l) Restricted cash

Restricted cash is invested in highly liquid deposits, which are used mainly as security for guarantees provided to lessors of office and production premises.

(m) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment, once they become over due by more than 60 days. A separate account records the impairment.

An allowance for a doubtful debt is made when there is objective evidence that the Group will not be able to collect the debts. The criteria used to determine that there is objective evidence that an impairment loss has occurred include whether the Financial Asset is past due and whether there is any other information regarding increased credit risk associated with the Financial Asset. Bad debts which are known to be uncollectible are written-off when identified.

(n) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. 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 consolidated entity and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. AII other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Computers and peripheral equipment:	3-15 years
Office furniture and equipment:	3-15 years
Production line:	4-10 years
Leasehold improvements:	Over the shorter of the term of the lease or useful life of the asset

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 carrying amount. These are included in profit or loss.

(o) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1 Summary of significant accounting policies (continued)

(p) Foreign currency translation

(i) Functional Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements of Emefcy Group Limited (the parent entity of the Group) are measured in Australian Dollars which is that entity's functional currency.

(ii) Presentation Currency

The consolidated financial statements are presented in US Dollars, which is the Group's presentation currency.

(iii) Translation and balances

Transactions in foreign currencies are converted to the functional currency at the exchange rate at the date of the transaction. Amounts payable to and by the Group outstanding at reporting date and denominated in foreign currencies have been converted to local currency using rates prevailing at the end of the financial year. All exchange differences are taken to profit or loss.

(iv) Group companies

The results of foreign subsidiaries and the parent entity are translated to US Dollars at the exchange rate at the date of the transaction. Assets and liabilities of foreign subsidiaries and the Australian parent are translated to US Dollars at exchange rates prevailing at balance date. All resulting exchange differences are recognised in other comprehensive income and in the foreign currency translation reserve in equity.

(q) Foreign operations

The assets and liabilities of foreign operations are translated into US dollars using the exchange rates at the date of the transaction. The revenues and expenses of operations not dominated in US dollars are translated into US dollars using the exchange rates at the date of the transaction, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

(r) Income tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting loss nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting loss nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

1 Summary of significant accounting policies (continued)

(s) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

Cash flows arising from operating activities are included in the Consolidated Statement of Cash Flow on a gross basis (i.e. including GST) and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority. The net amount of GST recoverable from or payable to, the taxation authority is included as part of the receivables or payables in the Consolidated Statement of Financial Position.

(t) Intangible assets

Intangible assets are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed 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 by changing the amortisation period or method, as appropriate, which is a change in an 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.

Research and development

Research costs are expensed as incurred.

An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not available for use, or more frequently when an indication of impairment arises during the reporting period.

Amortisation will commence when the assets are ready for use.

(u) Impairment of non-financial assets

The carrying values of non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

1 Summary of significant accounting policies (continued)

(u) Impairment of non-financial assets (continued)

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffer impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount.

(v) Trade and other payables

Trade and other payables are carried at amortised cost and 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 of the purchase of these goods and services. Licensing fees are recognised as an expense when it is confirmed that they are payable by the Group.

(w) Contributed equity

Ordinary shares are classified as equity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction (net of tax) of the share proceeds received.

(x) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Where applicable, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

<u>Onerous contracts</u>
An onerous contract is considered to exist where the Group has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations existing under onerous contracts are recognised as a provision to the extent that the present obligations exceed the benefits estimated to be received.

(y) Earnings per share

Basic earnings per share is calculated as net loss attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net loss attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(z) Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

1 Summary of significant accounting policies (continued)

(z) Investments and other financial assets (continued)

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

(aa) Significant Accounting Estimates and Assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

(i) **Fair Value of Financial Liability**

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

The company assessed the fair value of the financial milestone payments and government grant liabilities, which incorporate a number of key estimates and assumptions. For further details, please refer to note 10 Trade and Other Payables and note 12 Other Financial Liabilities.

(ii) **Income tax**

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

(iii) **Share-based payment transactions**

The consolidated entity measures the share based listing expense and the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

For further details, please refer to note 19 Share Based Payments.

1 Summary of significant accounting policies (continued)

(aa) Significant Accounting Estimates and Assumptions (continued)

(iv) Fair value measurement hierarchy

The consolidated entity is required to classify all assets and liabilities, measured 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; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

For the year ended 31 December 2016, the consolidated entity has had to measure financial liabilities at fair value at Level 3 in respect of a Government Grant Liability recorded at note 10 and Other Financial Liabilities at note 12. Information on the estimation of the fair value of these financial liabilities is set out in note 20.

2 Operating revenue

	Consolidated entity 2016 $	2015 $
Operating revenue		
MABR sales in Israel	230,224	-
MABR sales outside of Israel	552,428	-
Other income	9,772	-
	792,424	**-**

3 Segment information

The Group recognises its operations in Israel as a reporting segment.

The Company has identified its operating segment based on the internal reports that are reviewed and used by the management team and Board of Directors (who are identified as the Chief Operating Decision Makers (CODM)) in assessing performance and determining the allocation of resources.

The operating segment are identified by the CODM based on the manner in which the expenses are incurred, and for the purpose of making decisions about resource allocation and performance assessment. Discrete financial information about the operating segment is reported by the executive management team to the Board on a regular basis.

For the financial year ended 31 December 2016, there is no segment information to be disclosed for the new subsidiary based in Hong Kong as there were no material reportable activities during the period.

2016	**Israel $**	**Total $**
Segment revenue		
Operating revenue	792,424	792,424
Unallocated revenue - corporate	-	19,234
	792,424	**811,658**
Segment expense		
Segment depreciation and amortisation expense	(298,828)	(298,828)
Segment expense	(5,875,821)	(5,875,821)
Unallocated expenses - corporate	-	(3,701,917)
	(6,174,649)	**(9,876,566)**
Net result	**5,382,225**	**9,064,908**
Assets		
Segment assets	11,411,444	11,411,444
Unallocated assets - corporate	-	16,185,338
	11,411,444	**27,596,782**
Liabilities		
Segment liabilities	(2,221,343)	(2,221,343)
Unallocated liabilities - corporate	-	(1,311,790)
	(2,221,343)	**(3,533,133)**
Other information		
Acquisitions of PPE	368,031	368,031
Non current assets by geographical location	3,222,381	3,222,381

3 Segment information (continued)

2015	**Note**	**Israel** $	**Total** $
Segment revenue			
Unallocated revenue - corporate	(i)	-	1,179
Segment expense			
Segment depreciation and amortisation expense		(70,922)	(70,922)
Segment expense		(741,380)	(741,380)
Unallocated expenses - corporate	(ii)	-	(8,277,377)
		(812,302)	**(9,089,679)**
Net result		**(812,302)**	**(9,088,500)**
Assets			
Segment assets		3,965,532	3,965,532
Unallocated assets - corporate	(iii)	-	8,125,788
		3,965,532	**12,091,320**
Liabilities			
Segment liabilities		(1,573,718)	(1,573,718)
Unallocated liabilities - corporate	(iv)	-	(1,155,546)
		(1,573,718)	**(2,729,264)**
Other information			
Acquisitions of PPE		5,579	5,579
Acquisitions of intangible assets		1,652,427	1,652,427
Non current assets by geographical location		3,112,955	3,112,955

(a) Unallocated revenue - interest

	Consolidated entity 2016 $	2015 $
Unallocated revenue	19,234	1,179

(b) Unallocated expenses

	Australia 2016 $	2015 $
Listing expense recognised on reverse acquisition	-	(5,801,624)
Other acquisition cash consideration	(1,000,000)	(2,000,000)
Other corporate expenses	(2,701,917)	(475,753)
	(3,701,917)	**(8,277,377)**

3 Segment information (continued)

(c) Unallocated assets

	Australia	
	2016 $	2015 $
Cash and cash equivalents	16,089,087	8,011,400
Other receivables	80,281	61,477
Prepayments	15,970	52,911
	16,185,338	**8,125,788**

(d) Unallocated liabilities

	Australia	
	2016 $	2015 $
Trade and other payables	(311,790)	(155,546)
Other liabilities	(1,000,000)	(1,000,000)
	(1,311,790)	**(1,155,546)**

Intersegment transactions

Intersegment transactions are made at market rates. Intersegment transactions are eliminated on consolidation.

4 Income tax expense

The Group has not commenced significant trading. At its current stage of operational development the Group is not in a position to satisfy the accounting criteria of AASB112: Income Taxes to bring to account the benefit of its tax losses. Accordingly no current or deferred income tax benefits have yet been brought to account.

(a) Income tax expense

	Consolidated entity	
	2016 $	2015 $
Current tax		
Current tax	-	-
Total current tax expense	**-**	**-**
Deferred income tax		
Total deferred tax expense/(benefit)	**-**	**-**
Income tax expense	**-**	**-**

4 Income tax expense (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated entity 2016 $	Consolidated entity 2015 $
Loss from continuing operations before income tax expense	(9,064,908)	(9,088,500)
The prima facie tax on profit/(loss) from ordinary activities before tax at 30% Australia / 25% Israel (2015: 26.5% Israel) / 16.5% Hong Kong (2015:16.5%) is as follows:	(2,443,361)	(2,698,119)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non allowable expenses	1,261,819	2,563,320
Tax losses and other timing differences for which no DTA is recognised	1,181,542	134,799
Income tax expense	**-**	**-**

(c) Unrecognised deferred tax assets

	Consolidated entity 2016 $	Consolidated entity 2015 $
Unused tax losses	14,619,879	9,426,842
Temporary differences	18,797	955,848
Potential tax benefit	3,775,962	2,799,957

The unused tax losses were incurred by a dormant subsidiary that is not likely to generate taxable income in the foreseeable future. See note 1(aa)(ii) for information about recognised tax losses and significant judgements made in relation to them.

The Directors of Emefcy Group Limited intend to continue exploring the ability to utilise these historic tax losses.

5 Cash and Cash Equivalents

	Consolidated entity 2016 $	Consolidated entity 2015 $
Cash and cash equivalents	22,870,848	8,478,927
	22,870,848	**8,478,927**

6 Trade and Other Receivables

	Consolidated entity 2016 $	Consolidated entity 2015 $
Trade receivables	223,029	-
Government Grants to be received	301,645	103,376
Australia Tax Office - GST Receivables	80,281	61,476
Israel Tax Authority - VAT Receivables	105,317	39,159
Other receivables	2,337	195
	712,609	**204,206**

6 Trade and Other Receivables (continued)

Past due but not impaired

The Group did not have any receivables that were past due as at 31 December 2016 (2015: Nil). The Group did not consider a credit risk on the aggregate balances as at 31 December 2016. For more information, please refer to note 15.

7 Inventories

	Consolidated entity 2016 $	Consolidated entity 2015 $
Raw materials	269,916	57,619
Work in progress	182,538	64,625
Finished goods - at cost	-	72,725
	452,454	**194,969**

8 Property, plant and equipment

Consolidated entity	**Computers and peripheral equipment $**	**Office furniture and equipment $**	**Production line $**	**Leasehold improvements $**	**Total $**
At 1 January 2015					
Cost	202,000	73,000	971,000	6,000	1,252,000
Accumulated depreciation	(155,000)	(44,000)	(153,000)	(2,000)	(354,000)
Net book amount	**47,000**	**29,000**	**818,000**	**4,000**	**898,000**
Year ended 31 December 2015					
Opening net book amount	47,000	29,000	818,000	4,000	898,000
Additions	5,147	-	432	-	5,579
Depreciation charge	(8,954)	(2,415)	(59,274)	(279)	(70,922)
Exchange differences	(1,472)	(519)	(6,903)	(43)	(8,937)
Closing net book amount	**41,721**	**26,066**	**752,255**	**3,678**	**823,720**
At 31 December 2015					
Cost	207,147	73,000	971,432	6,000	1,257,579
Accumulated depreciation	(165,426)	(46,934)	(219,177)	(2,322)	(433,859)
Net book amount	**41,721**	**26,066**	**752,255**	**3,678**	**823,720**
Consolidated entity					
Year ended 31 December 2016					
Opening net book amount	41,721	26,066	752,255	3,678	823,720
Additions	40,629	9,778	284,213	33,411	368,031
Depreciation charge	(29,536)	(4,521)	(108,519)	(2,922)	(145,498)
Exchange differences	(2,314)	(120)	(3,807)	(552)	(6,793)
Closing net book amount	**50,500**	**31,203**	**924,142**	**33,615**	**1,039,460**
At 31 December 2016					
Cost	247,776	82,778	1,255,645	39,411	1,625,610
Accumulation depreciation	(197,276)	(51,575)	(331,503)	(5,796)	(586,150)
Net book amount	**50,500**	**31,203**	**924,142**	**33,615**	**1,039,460**

8 Property, plant and equipment (continued)

All depreciation and impairment charges are included within depreciation, amortisation and impairment of non-financial assets.

9 Intangible assets

Consolidated entity **Non-Current assets**	**Capitalised development costs** **$**
Year ended 31 December 2015	
Opening net book amount	575,000
Additions	1,711,877
Closing net book amount	**2,286,877**
Year ended 31 December 2016	
Opening net book amount	2,286,877
Additions	-
Amortisation charge	(153,329)
Closing net book amount	**2,133,548**

Capitalised development costs relates to the development of wastewater treatment technology - Membrane Aerated Bio Reactor (MABR). The nature of costs capitalised includes salaries and wages for research and development staff, technical equipment, materials, patent costs and any other costs associated with building the wastewater treatment technologies. These assets are now currently being sold during the current financial period.

Capitalised development expenditure is stated at cost less accumulated amortisation less any impairment losses are amortised over the period of expected future sales from the related projects which is estimated to be 15 years.

10 Trade and other payables

	Consolidated entity	
	2016	2015
	$	$
Current		
Trade payables	936,292	495,958
Accrued expenses	249,284	58,306
Government grants	185,755	63,255
	1,371,331	**617,519**
Non-current		
Government grants	1,038,689	1,111,745
	1,038,689	**1,111,745**

Government Grant Liability

The Group participates in programs sponsored by the Office of the Chief Scientist (“OCS”), for the support of research and development projects. In exchange for the Chief Scientist's participation in the programs, the Group is required to pay royalties to the Chief Scientist at a rate between 3% and 3.5% of sales to end customers of products developed with funds provided by the Chief Scientist, if and when such sales are recognised. As of 31 December 2016, the Group has received grants amounted to US$1,478,000. As of December 31, 2016 and 2015, the Group recognised a liability to the OCS in the amount of $957,828 and $993,000, respectively for the obligation for future royalty payments. The recognition of a liability for the Group to repay the grants from future royalty payments is based on its estimation at the end of each year. The discounted rate used by the Group for the liability is 13.7%. As of 31 December 2016, royalties of US$12,486 have been paid.

The Group has also participated in programs sponsored by the Ministry of National Infrastructures (“MNI”), for the support of research and development projects. In exchange for the MNI's participation in the programs, the Company is required to pay royalties to the MNI at a rate of 5% of the sales to end customers of products developed with funds provided by the MNI, if and when such sales are recognized. As of 31 December 2016, the Group received grants in the total amount of US$297,000 and no royalties were paid. As of 31 December 2016 and 2015, the Group recognized a liability to the MNI in the amount of $266,616 and $182,000, respectively. The exceptions of the Group to pay the grants are based on its estimation at the end of each year. The discounted rate used by the Group for the liability is 13.7%.

11 Current liabilities - Provisions

	Consolidated entity	
	2016	2015
	$	$
Provisions		
Provision - Onerous contracts	123,113	-

12 Other financial liabilities

	Consolidated entity 2016 $	2015 $
Current		
Acquisition milestone 2 payable	1,000,000	-
	1,000,000	**-**
Non-current		
Acquisition milestone 1 payable	-	1,000,000
	-	**1,000,000**

As part of the transaction between Emefcy Group Limited and Emefcy Limited (Israel), a maximum liability of US$2 million is payable to a shareholder of Emefcy Limited (Israel) on completion of the acquisition in lieu of receiving shares in Emefcy Group Limited subsequent to the satisfaction of the two commercial milestones (US$1 million per milestone). The transaction was completed on 18 December 2015. Details of the two commercial milestones and the satisfaction of the milestones are as follow:

Milestone 1 - A module of the SABRE (Spiral Aerobic Biofilm Reactor) (now referred as MABR) has been delivered to the first customer's site on, or before 18 June 2016. Having met the milestone on 29 March 2016 and completing of an additional capital raising in a private placement on 25 July 2016, the Group paid the first US$1 million to the shareholder on 10 August 2016.

Milestone 2 - The achievement of cumulative US$2 million in sales within 24 months of the transaction completion date. As at 31 December 2016, the directors of the Group are satisfied that the second milestone will be achieved in the next few months and has provided for the amount payable.

13 Contributed equity

	2016 No.	2015 No.	2016 $	2015 $
Ordinary shares (a)	279,551,054	199,937,410	51,271,509	28,325,226
Options (b)	18,742,946	15,856,590	1,857,910	156,549
Share capital	**298,294,000**	**215,794,000**	**53,129,419**	**28,481,775**

***(a)* Ordinary Shares - Fully Paid**	**Notes**	**Number of shares**	**$**
Opening balance 1 January 2015		4,324,138	12,597,640
Elimination of issued capital in Emefcy Limited (Israel)		(4,324,138)	-
Capital raising - Emefcy Limited (Israel)		-	797,079
Savcor issued capital at pre-acquisition		42,671,357	-
Deemed fair value of consideration to Savcor shareholders on Reverse acquisition		-	6,077,632
Shares issued to Emefcy Limited (Israel) vendors on Reverse acquisition		65,000,000	-
Issue of shares AU$0.20 pursuant to the Prospectus		69,066,053	9,836,997
Shares issued to consultants during the year		700,000	99,700
		177,437,410	29,409,048
Transaction costs arising on share issue	(iii)	-	(1,083,822)
Deferred consideration shares to be issued	(i)	22,500,000	-
Balance 31 December 2015		199,937,410	28,325,226

13 Contributed equity (continued)

		Number of shares	$
Opening balance 1 January 2016		177,437,410	28,325,226
Shares issued to consultants during the year		150,000	81,517
Private placement issued at AU$0.64 per share		49,400,000	22,595,948
Exercise of options		7,563,644	355,078
Deferred consideration shares to be issued		22,500,000	-
		257,051,054	51,357,769
Transaction costs arising on share issue		-	(86,260)
Deferred consideration shares to be issued	(ii)	22,500,000	-
Balance 31 December 2016		279,551,054	51,271,509

(i) **Deferred consideration**

The deferred consideration shares relate to the obligation for the Company to issue a further 22,500,000 shares to Emefcy Limited (Israel) vendors upon the satisfaction of the first milestone that a module of the SABRE (Spiral Aerobic Biofilm Reactor) has been delivered to the first customer's site on, or before 18 June 2016. This milestone was satisfied on 29th March 2016.

(ii) **Deferred Consideration - Milestone 2**

The deferred consideration shares relate to the obligation for the Company to issue a further 22,500,000 shares to Emefcy Limited (Israel) vendors upon the satisfaction of the second milestone which is "Emefcy has entered into firm contractual engagements representing an aggregate US$2 million (including all associated grants and incentives) within 24 months of the date of completion of the transaction between Emefcy Group Limited and Emefcy Limited (18 December 2015). As at 31 December 2016, the Directors are satisfied that the second milestone will be achieved in the next few months.

(iii) **Transaction costs relating to share issues**

Under AASB 132, incremental costs that are directly attributable to issuing new shares should be deducted from equity. The share issue expense relates to costs directly attributable to the issuing of new shares, costs associated with the listing have been deducted from equity.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholder meetings, each ordinary share is entitled to one vote when a poll is called; otherwise each shareholder has one vote on a show of hands.

(b) **Options**

2015	Number of options	$
Opening balance (i)	89,900	62,752
Elimination of issued options in Emefcy Limited (Israel) (i)	(89,900)	-
Unlisted options issued in Emefcy (ii)	-	3,175
Unlisted options issued in Savcor	8,213,644	-
Unlisted options issued to Directors pursuant to the Prospectus	5,000,000	90,622
Unlisted options issued to employees	2,642,946	-
Balance at 31 December 2015	15,856,590	156,549

13 Contributed equity (continued)

(iv) **Options (continued)**

2016	**Number of options**	**$**
Opening balance	15,856,590	156,549
Reversal of unlisted options issued to employees	(2,642,946)	-
Unlisted options issued to Directors pursuant to the Prospectus	-	289,212
Unlisted options issued to employees	5,587,946	281,685
Unlisted options issued to Consultants	6,555,000	921,100
Unlisted options issued to Directors	2,500,000	263,942
Exercised options	(7,563,644)	-
Cancelled options	(1,550,000)	(54,578)
Balance at 31 December 2016	18,742,946	1,857,910

(i) These options were cancelled as part of the transaction involving the acquisition of Emefcy Group Limited.

(ii) Unlisted Options issued in Emefcy under the Employee Stock Option Plan (ESOP)

Under the ESOP, options to purchase ordinary shares of the Company may be granted, from time-to-time, to employees, advisors, directors, consultants and service providers of the Company, each option granted can be exercised to one ordinary share of the Company. The default vesting schedule is for 33.33% to vest one year from the commencement date, and an additional 8.33% thereof to vest at the end of each successive three-month period thereafter, subject to continued employment or service.

(c) **Summary of all unlisted options in existence**

Grant date	**Expiry date**	**Exercise price**	**Number under option**
5 June 2015	5 June 2017	AU 15 cents	650,000
18 December 2015	18 December 2018	AU 30 cents	2,500,000
18 December 2015	18 December 2019	AU 40 cents	2,500,000
28 January 2016	31 July 2018	AU 30 cents	2,000,000
28 January 2016	31 January 2019	AU 40 cents	2,000,000
11 April 2016	13 April 2020	AU 35 cents	500,000
29 February 2016	23 December 2019	AU 30 cents	431,473
29 February 2016	23 December 2019	AU 40 cents	431,473
29 February 2016	28 February 2020	AU 30 cents	100,000
29 February 2016	29 February 2020	AU 40 cents	100,000
23 March 2016	23 March 2020	AU 30 cents	75,000
23 March 2016	23 March 2020	AU 40 cents	75,000
23 March 2016	12 April 2020	AU 30 cents	50,000
23 March 2016	12 April 2020	AU 40 cents	50,000
17 May 2016	16 May 2020	AU 59 cents	400,000
17 May 2016	28 May 2020	AU 59 cents	100,000
18 May 2016	18 May 2020	AU 40 cents	1,000,000
18 May 2016	18 May 2021	AU 40 cents	1,000,000
15 June 2016	31 May 2020	AU 93 cents	1,000,000
25 July 2016	31 July 2018	AU 64 cents	1,800,000
25 July 2016	25 July 2020	AU 79 cents	250,000
25 August 2016	25 July 2020	AU 87 cents	325,000
1 August 2016	1 August 2018	AU 70 cents	55,000
23 September 2016	25 September 2020	AU 1.00 dollar	200,000
27 October 2016	31 October 2019	AU 64 cents	100,000
27 October 2016	26 October 2020	AU 1.07 dollar	350,000
1 November 2016	31 October 2020	AU 74 cents	500,000
23 September 2016	9 November 2020	AU 1.00 dollar	200,000
			18,742,946

13 Contributed equity (continued)

(v) Summary of all unlisted options in existence (continued)

The general terms and conditions of the options were:

- No dividends or voting rights attached;
- Exercise price set at a premium to Value Weighted Average Price (VWAP) of five days prior to the date of entitlement;
- Subject to vesting periods; and
- All shares allotted upon exercise of options will upon allotment rank pari passu in all respect with other shares.

14 Reserve

	Consolidated entity 2016 $	2015 $
Foreign currency reserve	(654,970)	226,173

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences on translation of foreign controlled subsidiaries. Amounts are reclassified to profit or loss when the investment is disposed of.

15 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed.

The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange rate risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the Group's functional currency. The Group does not make use of derivative financial instruments to hedge foreign exchange risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

Consolidated entity	**31 December 2016**			**31 December 2015**		
	ILS $	**EUR $**	**AUD $**	**ILS $**	**EUR $**	**AUD $**
Assets	8,596,089	12,864	1,918,788	3,582,754	187,873	1,086,839
Liabilities	(2,047,337)	-	(165,977)	(1,573,718)	-	(155,546)
	(6,548,752)	**(12,864)**	**(1,752,811)**	**(2,009,036)**	**(187,873)**	**(931,293)**

15 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

A strengthening or weakening of 10% of the United States Dollar against the following currencies would have an equal and opposite effect on loss after tax and equity as outlined below. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2016 **+10%/-10%**	**2015** **+10%/-10%**
Israeli New Shekel	654,875 / (654,875)	200,904 / (200,904)
Euro	1,286 / (1,286)	18,787 / (18,787)
Australian Dollar	175,281 / (175,281)	93,129 / (93,129)

(ii) Interest rate risk

The Company is exposed to interest rate risks via the cash and cash equivalents that it holds. Interest rate risk is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities.

	Consolidated entity	
	2016 $	2015 $
Instruments with cash flow risk		
Cash and cash equivalents	22,870,848	8,478,927
Short term deposits	114,706	-
Restricted cash	18,761	32,127
	23,004,315	**8,511,054**

An increase or decrease of 1% in interest rates at the reporting date would have the following increase/ (decrease) effect on after tax loss and equity. The analysis assumes that all other variables remain constant.

	2016 **+1%/-1%**	**2015** **+1%/-1%**
Cash and cash equivalents	230,043 / (230,043)	85,111 / (85,111)

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group closely monitors the activities of its counterparties and controls the access to its intellectual property which enables it to ensure the prompt collection customers' balances. The Group's main financial assets are cash and cash equivalents as well as other receivables and represent the Group's maximum exposure to credit risk in connection with its financial assets. Other receivables are carried on the balance sheet net of bad and doubtful debt provisions estimated by management based on prior year experience and an evaluation of prevailing economic circumstances. Wherever possible and commercially practical the Group holds cash with major financial institutions in Israel, Australia and Hong Kong.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

15 Financial risk management (continued)

(b) Credit risk (continued)

	Consolidated entity 2016 $	Consolidated entity 2015 $
Cash and cash equivalents	22,870,848	8,478,927
Short term deposits	114,706	-
Restricted cash	18,761	32,127
Trade and other receivables	712,609	204,206
	23,716,924	**8,715,260**

(c) Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash balances and access to equity funding.

Maturity profile

The table below analyses the consolidated entity's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contracted undisclosed cash flows.

Contractual maturities of financial liabilities	**Less than 6 months**	**Greater than 6 months**	**Total contractual cash flows**	**Carrying amount**
At 31 December 2016	$	$	$	$
Trade and other payables	1,371,331	1,038,689	2,410,020	2,410,020
Other accounts payable	-	1,000,000	1,000,000	1,000,000
	1,371,331	**2,038,689**	**3,410,020**	**3,410,020**
At 31 December 2015				
Trade and other payables	617,519	1,111,745	1,729,264	1,729,264
Other accounts payable	-	1,000,000	1,000,000	1,000,000
Total non-derivatives	**617,519**	**2,111,745**	**2,729,264**	**2,729,264**

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may issue new shares or reduce its capital, subject to the provisions of the Group's constitution. The capital structure of the Group consists of equity attributed to equity holders of the Group, comprising contributed equity, reserves and accumulated losses. By monitoring undiscounted cash flow forecasts and actual cash flows provided to the Board by the Group's Management the Board monitors the need to raise additional equity from the equity markets.

16 Cash flow information

Reconciliation of loss after income tax to net cashflow from operating activities

	Consolidated entity 2016 $	Consolidated entity 2015 $
Loss for the period	(9,064,908)	(9,088,500)
Adjustment for		
Depreciation and amortisation expenses	298,828	70,922
Equity issued for nil consideration	1,782,878	190,322
Fair value adjustment	61,930	6,077,632
Accrued capital raising costs	-	(21,289)
Foreign exchange differences	(1,079,544)	188,464
Provision for losses	123,113	-
Listing expense recognised on acquisition	1,000,000	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(508,403)	(5,564)
(Increase) / decrease in other current assets	(394,371)	263,106
Increase in accounts payable	618,826	807,264
Increase in other payables	-	1,000,000
Net cashflow used in operating activities	**(7,161,651)**	**(517,643)**

17 Events occurring after the reporting period

No matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the economic entity, the result of those operations or the state of affairs of the economic entity in subsequent financial years.

18 Subsidiaries

Name	Place of incorporation	Ownership interest 2016	Ownership interest 2015
Parent Entity			
Emefcy Group Limited	Australia	N/A	N/A
Subsidiaries of Emefcy Group Limited			
Emefcy Limited (Israel)	Israel	100%	100%
Emefcy Limited (Hong Kong)	Hong Kong	100%	N/A

19 Share-based payments

On 10th August 2016, 150,000 shares were issued to a consultant at an issue price of AU$0.71 per share and a total transactional value of AU$106,500 (US$ 81,517) as identified in Note 13 - Contributed equity.

Employee Option Plan

A share option plan has been established by the consolidated entity and approved by shareholders at a general meeting, whereby the consolidated entity may, at the discretion of the Remuneration and Nomination Committee, grant options over ordinary shares in the company to certain key management personnel of the consolidated entity. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

Set out below are summaries of options granted under the plan:

2016

Grant date	Expiry Date	Balance at the start of the year	Exercise Price	Granted	Exercised	Vested	Cancelled / Reversed	Balance at the end of the year
11/03/2015	1/12/2016	4,227,868	A$0.06	-	4,227,868	-	-	-
27/03/2015	1/12/2016	528,483	A$0.06	-	528,483	-	-	-
5/06/2015	1/12/2016	153,610	A$0.06	-	153,610	-	-	-
22/06/2015	1/12/2016	1,844,777	A$0.06	-	1,844,777	-	-	-
29/07/2015	1/12/2016	558,906	A$0.06	-	558,906	-	-	-
5/06/2015	5/06/2017	900,000	A$0.15	-	250,000	650,000	-	650,000
18/12/2015	18/12/2018	2,500,000	A$0.30	-	-	-	-	2,500,000
18/12/2015	18/12/2019	2,500,000	A$0.40	-	-	-	-	2,500,000
23/12/2015	23/12/2019	321,473	A$0.30	-	-	-	321,473*	-
23/12/2015	23/12/2019	1,321,473	A$0.40	-	-	-	1,321,473*	-
23/12/2015	23/12/2019	1,000,000	A$0.40	-	-	-	1,000,000*	-
28/01/2016	31/07/2018	-	A$0.30	2,000,000	-	2,000,000	-	2,000,000
28/01/2016	31/01/2019	-	A$0.40	2,000,000	-	-	-	2,000,000
11/04/2016	13/04/2020	-	A$0.35	500,000	-	-	-	500,000
29/02/2016	28/02/2020	-	A$0.30	1,418,973	-	143,824	762,500	656,473
29/02/2016	28/02/2020	-	A$0.40	1,418,973	-	143,824	762,500	656,473
17/05/2016	28/05/2020	-	A$0.59	100,000	-	-	-	100,000

19 Share-based payments (continued)

Employee Option Plan (continued)

Grant date	Expiry Date	Balance at the start of the year	Exercise Price	Granted	Exercised	Vested	Cancelled / Reversed	Balance at the end of the year
17/05/2016	16/05/2020	-	A$0.59	400,000	-	-	-	400,000
18/05/2016	18/05/2020	-	A$0.40	1,000,000	-	-	-	1,000,000
18/05/2016	18/05/2021	-	A$0.40	1,000,000	-	-	-	1,000,000
15/06/2016	31/05/2020	-	A$0.93	1,000,000	-	-	-	1,000,000
25/07/2016	31/07/2018	-	A$0.64	1,800,000	-	1,800,000	-	1,800,000
25/07/2016	25/07/2020	-	A$0.79	250,000	-	-	-	250,000
25/08/2016	25/07/2020	-	A$0.87	350,000	-	-	25,000	325,000
1/08/2016	1/08/2018	-	A$0.70	55,000	-	55,000	-	55,000
23/09/2016	26/09/2020	-	A$1.00	200,000	-	-	-	200,000
27/10/2016	31/10/2019	-	A$0.64	100,000	-	100,000	-	100,000
17/10/2016	27/10/2020	-	A$1.07	350,000	-	-	-	350,000
1/11/2016	1/11/2020	-	A$0.74	500,000	-	-	-	500,000
23/09/2016	9/11/2020	-	A$1.00	200,000	-	-	-	200,000
		15,856,590		**14,642,946**	**7,563,644**	**4,307,648**	**4,192,946**	**18,742,946**

**Options were reversed and re-approved during 2016.*

Weighted average exercise price 0.47

19 Share-based payments (continued)

Employee Option Plan (continued)

2015

Grant date	Expiry Date	Balance at the start of the year	Exercise Price	Granted	Exercised	Vested	Balance at the end of the year
11/03/2015	1/12/2016	-	A$0.06	4,227,868	-	4,227,868	4,227,868
27/03/2015	1/12/2016	-	A$0.06	528,483	-	528,483	528,483
5/06/2015	1/12/2016	-	A$0.06	153,610	-	153,610	153,610
22/06/2015	1/12/2016	-	A$0.06	1,844,777	-	1,844,777	1,844,777
29/07/2015	1/12/2016	-	A$0.06	558,906	-	558,906	558,906
5/06/2015	5/06/2017	-	A$0.15	900,000	-	900,000	900,000
18/12/2015	18/12/2018	-	A$0.30	2,500,000	-	-	2,500,000
18/12/2015	18/12/2019	-	A$0.40	2,500,000	-	-	2,500,000
23/12/2015	23/12/2019	-	A$0.30	321,473	-	-	321,473
23/12/2015	23/12/2019	-	A$0.40	1,321,473	-	-	1,321,473
23/12/2015	23/12/2019	-	A$0.40	1,000,000	-	-	1,000,000
				15,856,590	**-**	**8,213,644**	**15,856,590**

Weighted average exercise price 0.21

The weighted average remaining contractual life of options outstanding at year end is 2.60 years (2015: 2.30 years).

(i) Fair value of options granted

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date are outlined below. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Grant date	Expiry Date $	Share price at grant date	Expected Volatility (%)	Exercise Price	Dividend yield	Risk-free interest rate	Fair value at grant date $
28/01/2016	31/07/2018	A$0.21	100%	A$0.30	Nil	1.85%	US$0.1054
28/01/2016	31/01/2019	A$0.21	100%	A$0.40	Nil	1.90%	US$0.1039
11/04/2016	13/04/2020	A$0.46	100%	A$0.35	Nil	1.92%	US$0.3380
29/02/2016	28/02/2020	A$0.22	100%	A$0.30	Nil	1.84%	US$0.1421
29/02/2016	28/02/2020	A$0.22	100%	A$0.40	Nil	1.83%	US$0.1304
17/05/2016	28/05/2020	A$0.62	100%	A$0.59	Nil	1.74%	US$0.4332
17/05/2016	16/05/2020	A$0.62	100%	A$0.59	Nil	1.74%	US$0.4332
18/05/2016	18/05/2020	A$0.60	100%	A$0.40	Nil	1.73%	US$0.4508
18/05/2016	18/05/2021	A$0.60	100%	A$0.40	Nil	1.85%	US$0.4764
15/06/2016	31/05/2020	A$0.79	100%	A$0.93	Nil	1.64%	US$0.5257
25/07/2016	31/07/2018	A$0.74	100%	A$0.64	Nil	1.40%	US$0.4168
25/07/2016	25/07/2020	A$0.74	100%	A$0.79	Nil	1.54%	US$0.5029
25/08/2016	25/07/2020	A$0.74	100%	A$0.87	Nil	1.48%	US$0.4877
1/08/2016	1/08/2018	A$0.65	100%	A$0.70	Nil	1.36%	US$0.3306
23/09/2016	26/09/2020	A$0.93	100%	A$1.00	Nil	1.71%	US$0.6325
27/10/2016	31/10/2019	A$0.92	100%	A$0.64	Nil	1.72%	US$0.6340
17/10/2016	27/10/2020	A$0.92	100%	A$1.07	Nil	1.86%	US$0.6153
1/11/2016	1/11/2020	A$0.96	100%	A$0.74	Nil	1.86%	US$0.7029
23/09/2016	9/11/2020	A$0.93	100%	A$1.00	Nil	1.73%	US$0.6396

19 Share-based payments (continued)

(a) Expenses arising from share-based payment transactions

	Consolidated entity 2016 $	Consolidated entity 2015 $
Share based payment expense		
Consultant Share based payments	1,002,617	99,700
Employee Share based payments	227,107	-
Director Share based payments	553,154	90,622
	1,782,878	**190,322**

20 Recognised fair value measurements

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed are categorised according to the fair value hierarchy as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - Inputs for the assets or liability that are not based on observable market data (unobservable inputs).

2016	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Recurring fair value measurements				
Financial liabilities				
Government grant liability	-	-	1,224,444	1,224,444
Other financial liabilities				
Acquisition milestone 2 payable (note 12)	-	-	1,000,000	1,000,000
	-	-	**2,224,444**	**2,224,444**

2015	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Recurring fair value measurements				
Financial liabilities				
Government grant liability	-	-	1,175,000	1,175,000
Other financial liabilities				
Acquisition milestone 1 payable (note 12)	-	-	1,000,000	1,000,000
	-	-	**2,175,000**	**2,175,000**

Disclosed fair values

The group also has assets and liabilities which are not measured at fair value, but for which fair values are disclosed in the notes to the financial statements.

Due to their short-term nature, the carrying amount of trade receivables and payables are assumed to approximate their fair values because the impact of discounting is not significant.

Valuation techniques and assumptions used to derive Level 3 fair values recognised in the financial statements

The fair value of the government grant liability is determined by the expected time period that the grant liability is to be repaid from the royalty stream from future revenue discounted over time at a rate of 13.7% (2015: 14.9%)

20 Recognised fair value measurements (continued)

Reconciliation of Level 3 fair value movements

The following table sets out the movements in Level 3 fair values for recurring measurements.

	Government grant $
Opening Balance at 1 January 2015	**595,000**
Adjustment to fair value of liability	580,000
Closing Balance at 31 December 2015	**1,175,000**
Adjustment to fair value of liability	49,444
Closing Balance at 31 December 2016	**1,224,444**

21 Key Management Personnel Disclosures

Compensation

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

	Consolidated entity 2016 $	2015 $
Short-term employee benefits	1,650,165	811,955
Share based payments	604,174	95,756
	2,254,339	**907,711**

The above Key Management Personnel disclosures represents the remuneration of Key Management Personnel defined in the Remuneration Report and paid or payable for the 12 months ended 31 December 2016 and 31 December 2015 by Emefcy Limited (Israel) and amounts payables by Emefcy Group Limited (the legal parent) from 18 December 2015 to 31 December 2015.

For more information on Key Management Personnel Compensation disclosed under the *Corporations Act 2001*, please refer to Remuneration Report contained under Directors' Report.

22 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

BDO East Coast Partnership

Audit and other assurance services

	Consolidated entity 2016 $	2015 $
Audit and review of financial statements - BDO East Coast Partnership	53,214	36,490
Audit and review of the financial statements – BDO Israel	23,600	14,920
Total remuneration for audit and other assurance services	**76,814**	**51,410**

(i) **Taxation services**

Taxation services		
Tax compliance services - BDO East Coast Partnership	13,973	-

23 Commitments

(a) The Company leases premises for the year ended 31 December 2016. The aggregate minimum rental commitments under the non-cancellable rent agreements as at 31 December 2016 are $1,160,000. Total rent expenses for the years ended 31 December 2016 and 2015 were $139,000 and $141,000, respectively.

(b) The Company leases its motor vehicles under lease agreements. As at 31 December 2016, the minimum payment under these operating leases is $49,373.

(c) As at 31 December 2016 and 2015, the Company provided a bank guarantee for the fulfilment of its lease commitments in the amount of approximately $19,000 and $32,000, respectively.

(d) The Company has a government grant liability of $1,224,444 for details refer to Note 10 - Trade and other payables.

24 Related party transactions

Parent entity

Emefcy Group Limited is the legal parent entity in the consolidated entity.

Subsidiaries

Interests in subsidiaries are set out in note 18.

Key management personnel

Disclosures relating to key management personnel are set out in note 21 and the remuneration report in the directors' report.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Other than the issue of shares and options, no other related party transactions have been entered into between key management personnel and the group during the financial year 2016 and 2015.

25 Loss per share

(a) Basic loss per share

	Consolidated entity	
	2016	2015
Loss attributable to the ordinary equity holders of the Company	(0.04)	(0.13)

(b) Diluted loss per share

	Consolidated entity	
	2016	2015
Loss attributable to the ordinary equity holders of the Company	(0.04)	(0.13)

25 Loss per share (continued)

(c) Reconciliation of earnings used in calculating earnings per share

	Consolidated entity 2016 $	Consolidated entity 2015 $
Loss attributable to the ordinary equity holders of the Group used in calculating basic earnings per share:		
From continuing operations	(9,064,908)	(9,088,500)

(d) Weighted average number of shares used as the denominator

	Consolidated entity 2016 Number	Consolidated entity 2015 Number
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	**214,111,481**	**69,004,621**

26 Parent entity financial information

Summary financial information

The individual Financial Statements for the parent entity show the following aggregate amounts:

	2016 $ AUD	2015 $ AUD
Current assets	21,028,573	11,109,215
Total assets	33,899,270	11,109,215
Current liabilities	1,813,936	213,135
Total liabilities	1,813,936	1,157,103
Issued capital	44,811,632	12,411,838
Foreign currency translation reserve	(2,170,473)	426,268
Accumulated losses	(10,555,825)	(2,885,994)
Total Equity	**32,085,334**	**9,952,112**
Loss for the year	7,870,501	2,885,994
Total comprehensive loss	**7,870,501**	**2,885,994**

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity has not entered into any guarantees in the current or prior financial year in relation to debts of its subsidiaries.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the Group as disclosed in note 1.

Contractual commitments and Contingent Liabilities
At 31 December 2016 Emefcy Group Limited had no contractual commitment and contingent liabilities.

Emefcy Group Limited
Directors' Declaration
31 December 2016

In the directors' opinion:

(a) the Financial Statements and notes set out on pages 28 to 62 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

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

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Note 1(b) confirms that the Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of directors.

Eytan Levy
Managing Director and CEO
30th March 2017
Israel

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INDEPENDENT AUDITOR'S REPORT

To the members of Emefcy Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Emefcy Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

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

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Contract revenue recognition	*How the matter was addressed in our audit*
During the year, the group commenced trading of products and recognised contract revenue of $782,652 in accordance with AASB 111 Construction Contracts. The Group applies the percentage of completion method in recognising revenue. This method requires a higher degree of judgement in determining the revenue recognised in the financial year and as a result was key focus area for our audit. *The accounting policy for revenue recognition is described in Note 1(f), and revenue is disclosed in Note 2 of the accompanying financial statements.*	Our procedures to address the risk of material misstatement relating to the recognition of contract revenue included: • Review of the Group's revenue recognition policy to ensure it complied with Australian Accounting Standards • Reviewing a sample of revenue contracts and evaluating the stage of completion calculation to ensure that the Group's accounting policy had been correctly applied • On a samples basis, we vouched the expenses assigned to each project to agree the clerical accuracy and completeness of the calculation • Holding discussions with key management personnel and project engineers to understand and evaluate management's assessment and associated assumptions in determining the percentage of completion • Reviewing the calculation for loss making contracts to agree they had been correctly accounted under Australian Accounting Standards.

Government grants	*How the matter was addressed in our audit*
Government grants received by the Company's subsidiary in Israel are recognised as a liability as they are required to be repaid over time, with the timing of repayment varying based on the timing of recognition of revenue. Grant liabilities are therefore recognised at their fair value. There is a risk that the company may incorrectly	Our procedures in respect of this area included: • Reviewing the terms of the Grant Agreements and ensuring that they were reflected in the calculation of the liability • Holding discussions with key management personnel to understand management's forecast revenue and associated assumptions in

calculate the fair value of their liabilities. *The accounting policy for government grants is described in Note 1(g), and the breakdown of the associated liability is disclosed in Note 10 of the accompanying financial statements.*	determining the fair value of the grant liability • Agreed the key assumptions, inputs and royalty rates to the approved budget and to the terms of the underlying Grant Agreements • Evaluating the discount rate applied to calculate the fair value in conjunction with our valuation experts and to a report prepared by an independent valuation expert.

Other information

The directors are responsible for the other information. The other information comprises the information contained in the directors' report for the year ended 31 December 2016, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the chairman's address, which is expected to be made available to us after that date.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the chairman's address, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_files/ar2.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 24 of the directors' report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Emefcy Group Limited, for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

BDO East Coast Partnership

BDO

David Garvey

David Garvey
Melbourne, 30 March 2017

Emefcy Group Limited
Shareholder information
31 December 2016

The shareholder information set out below was applicable as at ***29 March 2017***.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Class of equity security	
Holding	**Shares**	**Options**
1 - 1000	165,116	-
1,001 - 5,000	2,034,979	-
5,001 - 10,000	3,701,692	1,810,000
10,001 - 100,000	28,819,493	17,382,946
100,001 and over	203,721,506	-
	238,442,786	19,192,946

There were 437 holders of less than marketable parcel of ordinary shares.

All issued ordinary shares carry one vote per share.

Share options do not carry the right to vote.

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of Ordinary Fully Paid Ordinary Shareholders are listed below:

Shareholders	**Ordinary shares**	
	Number held	**Percentage of issued shares**
POND VENTURE NOMINEES 111 LIMITED	28,944,080	12.14%
EMPLOYEE EQUITY ADMINISTRATION PTY LTD	14,166,593	5.94%
JAGEN PTY LTD	11,644,393	4.88%
CITICORP NOMINEES PTY LIMITED	10,453,212	4.38%
PLAN B VENTURES I LLC	9,691,162	4.06%
MR HAO JING	7,890,000	3.31%
ISRAEL CLEANTECH VENTURES (CAYMAN) 1 (A) L P	6,448,369	2.70%
PLAN B VENTURES II LLC	6,327,016	2.65%
J P MORGAN NOMINEES AUSTRALIA LIMITED	5,843,902	2.45%
BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	5,760,689	2.42%
MELIC PTY LIMITED <MELIC UNIT A/C>	5,000,000	2.10%
UBS NOMINEES PTY LTD	4,892,809	2.05%
DR STUART LLOYD PHILLIPS & MRS FIONA JANE PHILLIPS <SL & FJ PHILLIPS S/FUND A/C>	3,722,500	1.56%
JOHN W KING NOMINEES PTY LTD	3,717,129	1.56%
ENERGY TECHNOLOGY VENTURES LLC	3,500,853	1.47%
LILLIS SERVICES PTY LTD	3,243,874	1.36%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	2,730,399	1.15%
MRS QUNYAN WU	2,668,891	1.12%
NATIONAL NOMINEES LIMITED	2,285,382	.96%
GE VENTURES LIMITED	2,007,859	.84%
Total balance of remaining holders	97,503,674	40.90%
	238,442,786	**100.00%**

B. Equity security holders (continued)

Options

Quantity	Exercise Price	Expiry Date	Holders
2,000,000	AU$0.30	31 July 2018	1
2,000,000	AU$0.40	31 July 2019	1
650,000	AU$0.15	5 June 2017	2
100,000	AU$0.64	31 October 2019	1
2,500,000	AU$0.30	16 December 2018	4
2,500,000	AU$0.40	16 December 2019	4
2,000,000	AU$0.40	18 May 2021	2
500,000	AU$0.35	13 April 2020	2
100,000	AU$0.30	23 December 2019	1
100,000	AU$0.40	23 December 2019	1
1,800,000	AU$0.64	31 July 2018	3
55,000	AU$0.70	1 August 2018	1
200,000	AU$1.00	26 September 2020	3
200,000	AU$1.00	9 November 2020	1
350,000	AU$1.00	9 February 2021	2
331,473	AU$0.30	23 December 2019	3
331,473	AU$0.40	23 December 2019	3
100,000	AU$0.30	28 February 2020	1
100,000	AU$0.40	28 February 2020	1
75,000	AU$0.30	23 March 2020	1
75,000	AU$0.40	23 March 2020	1
50,000	AU$0.30	12 April 2020	1
50,000	AU$0.40	12 April 2020	1
400,000	AU$0.59	16 May 2020	1
100,000	AU$0.59	28 May 2020	1
1,000,000	AU$0.93	31 May 2020	1
250,000	AU$0.79	25 July 2020	3
325,000	AU$0.86	26 July 2020	7
350,000	AU$1.07	27 October 2020	5
575,000	AU$0.87	20 December 2020	3
25,000	AU$0.84	10 January 2021	1
19,192,946			63

C. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
POND VENTURE NOMINEES 111 LIMITED	28,944,080	12.13%
EMPLOYEE EQUITY ADMINISTRATION PTY LTD	14,166,593	5.94%
Total Number of Shares Held by Substantial Shareholders	**43,110,673**	**18.07%**

Shareholder enquiries

Shareholders with enquiries about their shareholdings should contact the share registry:

Boardroom Pty Ltd
Level 12, 225 George Street, Sydney, NSW, 2000, Australia

Telephone: 1300 737 760 (local), +61 2 9290 9600 (international)
Email: enquiries@boardroomlimited.com.au

Change of address, change of name, consolidation of shareholdings

Shareholders should contact the Share Registry to obtain details of the procedure required for any of these changes.

Annual report

Shareholders do not automatically receive a hard copy of the Company's Annual Report unless they notify the Share Registry in writing. An electronic copy of the Annual Report can be viewed on the company's website: www.emefcy.com

Tax file numbers

It is important that Australian resident Shareholders, including children, have their tax file number or exemption details noted by the Share Registry.

CHESS (Clearing House Electronic Subregister System)

Shareholders wishing to move to uncertified holdings under the Australian Securities Exchange CHESS system should contact their stockbroker.

Uncertified share register

Shareholding statements are issued at the end of each month that there is a transaction that alters the balance of an individual/company's holding.

Company Secretary

The name of the Company Secretary is Mr Ross Kennedy.

Registered office

The address of the registered office is Suite 1, 1233 High Street, Armadale, VIC, 3143, Australia.
Phone: +61 (0)3 9824 5254

Stock exchange listing

Quotation has been granted for all the ordinary shares of the Group on all member exchanges of the Australia Securities Exchange Limited.

Listing rule 4.10.19 disclosure

For the purposes of ASX Listing Rule 4.10.19, the Board confirms that during the period from 1 January 2016 to 31 December 2016, the Company used its cash and assets readily convertible to cash in a manner consistent with its stated business objectives.

www.emefcy.com