

Fluence Corporation Limited (formerly Emefcy Group Limited)

Appendix 4D

Preliminary Half-year Report

Half-year 30 June 2017

Results for announcement to the market

Current reporting period - half year ended 30 June 2017
Previous - half year ended 30 June 2016

				US\$
Revenue for ordinary activities	Down	(14.6)%	to	361,080
Loss from ordinary activities after tax attributable to members	Up	357.8%	to	(12,149,342)
Net loss for the period attributable to members	Up	357.8%	to	(12,149,342)

Dividends (distributions)

	Amount per security	Franked amount per security
Final dividend	-	-
Previous corresponding period	-	-

Net tangible asset per security

As at 30 June 2017	0.05
As at 31 December 2016	0.09
Record date for determining entitlements to dividend	N/A

Explanation of the above information:

Refer to the Directors' Report - Review of Operations.

To be read in conjunction with the 31 December 2016 Annual Report

**Fluence Corporation Limited (formerly
Emefcy Group Limited)**

ABN 52 127 734 196

**Interim Report
for the half-year 30 June 2017**

Fluence Corporation Limited (formerly Emefcy Group Limited) ABN 52 127 734 196

Interim Report - 30 June 2017

Contents

	Page
Directors' Report	1
Auditor's independence declaration	5
Interim financial statements	
Consolidated Statement of Profit or Loss and Other Comprehensive Income	6
Consolidated Statement of Financial Position	7
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash Flows	9
Notes to the Consolidated Financial Statements	10
Directors' Declaration	18
Independent Auditor's Review Report	19

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2016 and any public announcements made by Fluence Corporation Limited (formerly Emefcy Group Limited) during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' Report

The directors present their report, together with the financial statements for the half-year ended 30 June 2017, on the Consolidated entity consisting of:

- Fluence Corporation Limited (formerly Emefcy Group Limited);
- Emefcy Limited, a wholly owned Israel based subsidiary;
- Emefcy Hong Kong Limited, a wholly owned Hong Kong based subsidiary; and
- Jiangsu Emefcy Environment Protection Technologies Limited, a China based subsidiary, wholly owned by Emefcy Hong Kong Limited

referred to hereafter as the 'Consolidated entity' or 'Group'.

Directors

The following persons were directors of Fluence Corporation Limited (formerly Emefcy Group Limited) during the reporting financial period and up to the date of this report, unless otherwise stated:

Mr Richard Irving, Executive Chairman
Mr Eytan Levy, Executive Director
Mr Ross Haghighat, Non-Executive Director
Mr Peter Marks, Non-Executive Director
Mr Robert Wale, Non-Executive Director
Mr Henry Charrabe, Managing Director and CEO (appointed 14 July 2017)
Dr Rengarajan Ramesh, Non-Executive Director (appointed 14 July 2017)

Review of operations

The operations for the six months ended 30 June 2017 are those of Fluence Corporation Limited (formerly Emefcy Group Limited). Key achievements during the six months included:

Agreement to merge by acquisition with RWL Water LLC to form Fluence Corporation Limited

On 26 May 2017, the the Emefcy Group Limited and RWL Water LLC announced a binding agreement to combine the two groups to form Fluence Corporation Limited (referred to hereafter as the 'Combined Group'). The merger was completed on 14 July 2017 and has created a global provider of innovative, decentralised water and wastewater treatment solutions for both municipal and industrial applications.

On a pro-forma basis, the Combined Group has been growing at an annual compounded rate of revenue growth in excess of 20% for several years and anticipates exceeding that increase in CY 2017. As of July 31st, the total actual revenue and contracted 2017 revenue backlog was approximately \$65m. The Combined Group also anticipates increasing gross margin and recurring revenue by adding Emefcy's disruptive technological innovations to RWL Water's standardised solution suite.

Roll out of the China strategy continues

Progress continued with existing and new distribution channels in China.

The first demonstration plant deployed at the Wuxi Design Institute is operating within the required effluent quality specifications. Data continues to be collected to support the application for certification. A second demonstration unit was shipped to 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. The third and fourth demonstration units have been shipped to CGGC and Sinorichen. These latter three demonstration units incorporate design upgrades resulting from operating experience at the first deployment at Wuxi. All four demonstration units will also be important reference sites for potential Chinese customers.

The Group's wholly foreign owned entity in China was incorporated and is now operational with a manufacturing facility being established in Jiangsu Province, a branch established in Beijing, and another planned for Shanghai.

Review of operations (continued)

Roll out of the China strategy continues (continued)

In recent months, the Group has announced the deployment of the MABR Wastewater treatment systems in Tianjin --- China's fourth-largest city as well as the first three planned commercial deployments in China. The Group also announced the high speed MABR production line for China has been tested in Israel and is being shipped to China.

Roll out of the MABR strategy outside China

In early February 2017, the Group announced the planned deployment of the first Emefcy MABR system in California. This is the result of a memorandum of understanding with Stanford University's Codiga Resource Recovery Center (CR2C), to test and evaluate Emefcy's MABR product. CR2C is a first-of-its-kind pilot-scale testing facility, using a novel core infrastructure and test beds for flexible analysis of mobile treatment systems fed multiple grades of water.

On 13 February 2017, the Group announced the signing of its second contract in Ethiopia. In collaboration with its local partner TodayTomorrow Ventures Inc. ("TTV"), the Group will supply its proprietary technology for a new wastewater treatment plant for a large residential compound in Addis Ababa. When complete later this year, the plant will replace the existing septic systems with an energy-efficient, reliable, and neighbourhood-friendly treatment and reuse system. The contract will generate revenue of approximately US\$400,000 to Emefcy. Construction is well underway.

During the six months ended 30 June 2017, the US Virgin Islands MABR installation received USA EPA approval, thereby becoming a valuable reference site for the Americas, and China which applies a similar environmental standard.

All Ordinaries Index

On 10 March 2017, S&P Dow Jones Indices announced the admission of Emefcy to the prestigious ASX All Ordinaries Index, representing the Top 500 companies listed on the ASX by market capitalisation. Fluence anticipates that it may qualify for the S&P ASX 300 Index in due course.

Recognition as 2016 Breakthrough Water Technology Company of the Year

On April 26, Emefcy was recognised as a 2016 Breakthrough Water Technology Company of the Year by Global Water Intelligence ("GWI"), one of the industry's pre-eminent water industry research organisations. The award category recognises development-stage companies that made the most impressive commercial breakthroughs into the global water market in the past year. Emefcy was recognised "with distinction" at the awards ceremony at GWI's Global Water Summit in Madrid, Spain.

Review of financial results

Following the merger with RWL Water LLC on 14 July 2017, the financial performance of the merged group going forward will be very different to that of the Consolidated entity for the six months ended 30 June 2017.

The Group has used United States Dollars (US\$), as its presentation currency in the attached financial report, which conform to IFRS accounting standards.

In accordance with AASB 138, research and development costs amounted to US\$2,286,877, amortised over a 15 year period.

The revenue from ordinary activities for the six months ended 30 June 2017 was US\$365,067 (2016: \$426,247) and the loss from ordinary activities after tax was US\$12,149,342 (2016: \$2,654,160).

Cost of sales for the six months ended 30 June 2017 increased to US\$2,164,655 (2016: \$698,329). This reflected the cost of producing a number of demonstration units produced in Israel to support marketing activities in China and the USA as well as scaling up production capacity in Israel and China.

Research and development expenses for the six months ended 30 June 2017 increased to US\$2,014,374 (2016: US\$857,242). This reflected an increase in the R&D team in line with budget and product development costs for the China MABR, SUBRE and other wastewater treatment technologies.

Review of financial results (continued)

Corporate consulting fees for the six months ended 30 June 2017 increased to US\$3,406,372 (2016: \$347,351 and mainly related to costs associated with the successful merger negotiations with RWL Water LLC.

The loss from ordinary activities included non-cash items amounting to US\$4,128,375. The non-cash items comprised share based compensation, foreign exchange translation differences, depreciation and amortisation and accruals of expenses relating to the cost of the merger negotiations.

The Group's net assets decreased by US\$8,181,911 from \$24,063,649 to \$15,881,738 during the six months to 30 June 2017.

Significant changes in the state of affairs

During the six month period, the Group continued to execute its strategy for China through establishing strategic partnerships and achieving the first commercial sales of its MABR technology in China. In addition, the Group was extensively involved in due diligence and commercial negotiations for the merger by acquisition with RWL Water LLC.

Significant events after balance date

Merger with RWL Water LLC

As noted above, the merger between Emefcy Group Limited and RWL Water LLC was completed on 14 July 2017 to form Fluence Corporation Limited.

Pursuant to the terms of the agreement, in addition to the payment of US\$10,000 in cash, Combined Group has issued a total of 100.5 million new ordinary shares, comprising 80.4 million shares issued at completion and the balance of 20.1 million shares to be issued following a 12 month escrow period to secure vendor warranties as the purchase consideration for all of RWL Water's equity interests.

Those shares will be subject to a voluntary escrow for two years following closing. RWL Water's current sole member, an entity owned by Mr Ronald S. Lauder, also subscribed for US\$20 million of Combined Group's ordinary shares in a private placement at an issue price of A\$0.85 per share, for an additional 31.6 million Emefcy shares.

Fluence employs more than 300 highly trained water professionals around the globe and has experience in over 70 countries worldwide. Headquartered in New York, and listed on the Australian Securities Exchange, the Combined Group also has a significant presence in China, USA, Israel, Argentina, Brazil, Mexico and Italy as well as regional offices in France, Dubai and Australia.

Fluence's top goals are to:

- Achieve sustained EBITDA profitability on a quarterly basis during calendar year 2019 by maintaining revenue growth rate, increasing gross margins & minimising SG&A growth;
- Improve revenue visibility via increased recurring revenue; and
- Become the dominant global player in decentralised water and wastewater treatment solutions through our offering of innovative water, wastewater and waste-to-energy treatment technologies.

As part of the merger agreement, Mr Henry Charrabé was appointed Managing Director and CEO and Dr Rengarajan Ramesh has been appointed to the Board. The parent company changed its name to Fluence Corporation Limited on 14 July 2017 and the executive team is now substantially based in New York.

Private Placement

On August 8, 2017, the Combined Group announced a US\$10.0 million strategic investment had been made in the Combined Group through a Private Placement by a large US-based institutional investor. A second investor also participated in the Private Placement, bringing the total amount raised to US \$11 million. The issue price of A \$0.85 per share represented a 4.9% premium to the closing market price of A\$0.81 as of August 3. A total of 16,309,001 shares were issued as a result of the Private Placement.

Significant events after balance date (continued)

Private Placement (continued)

The Private Placement will help satisfy several of Fluence's stated objectives, including a steady transformation of the Combined Group's share register towards a more global investor base, attracting high-quality US-based funds in anticipation of a future potential listing on a U.S. stock exchange and providing working capital to fund new growth opportunities.

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 the following page.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors.


Eytan Levy
Executive Director
Israel
30 August 2017

DECLARATION OF INDEPENDENCE BY DAVID GARVEY TO THE DIRECTORS OF FLUENCE CORPORATION LIMITED

As lead auditor for the review of Fluence Corporation Limited for the half-year ended 30 June 2017, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Fluence Corporation Limited and the entities it controlled during the period.



David Garvey
Partner

BDO East Coast Partnership

Melbourne, 30 August 2017

Fluence Corporation Limited (formerly Emeffy Group Limited)
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year 30 June 2017

		Consolidated entity	
		30 June	30 June
		2017	2016
	Notes	US\$	US\$
Revenue from continuing operations			
Operating revenue	3	361,080	422,580
Interest revenue		3,987	3,667
		365,067	426,247
Expenses			
Cost of sales		(2,164,655)	(698,329)
Research and development expenses		(2,014,374)	(857,242)
Sales and marketing expenses		(955,925)	(309,115)
Administrative expenses		(1,257,440)	(823,123)
Corporate consulting fees		(3,406,372)	(347,351)
Director expense		(303,751)	(323,725)
Legal expenses		(872,911)	(30,394)
Amortisation and depreciation		(162,286)	(151,011)
Finance costs		(7,931)	(6,695)
Foreign exchange gain/ (loss)		(1,368,764)	466,578
Loss before income tax		(12,149,342)	(2,654,160)
Loss for the period		(12,149,342)	(2,654,160)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		1,726,708	(207,433)
Other comprehensive income / (loss) for the period, net of tax		1,726,708	(207,433)
Total comprehensive loss for the period		(10,422,634)	(2,861,593)
Total comprehensive loss for the period is attributable to:			
Owners of Fluence Corporation Limited		(10,422,634)	(2,861,593)
Losses per share for profit from continuing operations attributable to the ordinary equity holders of the Group:			
Basic loss per share	6	(0.05)	(0.01)
Diluted loss per share	6	(0.05)	(0.01)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Fluence Corporation Limited (formerly Emecky Group Limited)
Consolidated Statement of Financial Position
As at 30 June 2017

	Consolidated entity	
	30 June	31 December
	2017	2016
Notes	US\$	US\$
ASSETS		
Current assets		
Cash and cash equivalents	15,082,679	22,870,848
Short term deposits	126,164	114,706
Restricted cash	162,757	18,761
Trade and other receivables	1,160,477	712,609
Inventories	1,209,265	452,454
Prepayments	92,834	205,023
Total current assets	17,834,176	24,374,401
Non-current assets		
Other receivables	48,629	49,373
Property, plant and equipment	1,484,997	1,039,460
Intangible assets	2,058,189	2,133,548
7	3,591,815	3,222,381
Total non-current assets	3,591,815	3,222,381
Total assets	21,425,991	27,596,782
LIABILITIES		
Current liabilities		
Trade and other payables	3,172,648	1,371,331
Provisions	115,205	123,113
Other financial liabilities	1,000,000	1,000,000
Total current liabilities	4,287,853	2,494,444
Non-current liabilities		
Trade and other payables	1,256,400	1,038,689
Total non-current liabilities	1,256,400	1,038,689
Total liabilities	5,544,253	3,533,133
Net assets	15,881,738	24,063,649
EQUITY		
Contributed equity	55,370,142	53,129,419
Other reserves	1,071,738	(654,970)
Accumulated losses	(40,560,142)	(28,410,800)
9	15,881,738	24,063,649
Total equity	15,881,738	24,063,649

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

Fluence Corporation Limited (formerly Emefty Group Limited)
Consolidated Statement of Changes in Equity
For the half-year 30 June 2017

Consolidated entity	Notes	Contributed equity US\$	Other reserves US\$	Accumulated losses US\$	Total US\$
Balance at 1 January 2016		28,325,226	226,173	(19,345,892)	9,205,507
Loss for the period		-	-	(2,654,160)	(2,654,160)
Other comprehensive profit / (loss)		-	(207,433)	-	(207,433)
Total comprehensive income for the period		-	(207,433)	(2,654,160)	(2,861,593)
Transactions with owners in their capacity as owners:					
Issue of options	9	625,548	-	-	625,548
Cancelled options	9	(53,484)	-	53,484	-
		572,064	-	53,484	625,548
Balance at 30 June 2016		28,897,290	18,740	(21,946,568)	6,969,462
Balance at 1 January 2017		53,129,419	(654,970)	(28,410,800)	24,063,649
Loss for the period		-	-	(12,149,342)	(12,149,342)
Other comprehensive profit / (loss)		-	1,726,708	-	1,726,708
Total comprehensive income for the period		-	1,726,708	(12,149,342)	(10,422,634)
Transactions with owners in their capacity as owners:					
Issue of ordinary shares, net of transaction costs	9	764,218	-	-	764,218
Issue of options	9	1,476,505	-	-	1,476,505
		2,240,723	-	-	2,240,723
Balance at 30 June 2017		55,370,142	1,071,738	(40,560,142)	15,881,738

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

Fluence Corporation Limited (formerly Emefcy Group Limited)
Consolidated Statement of Cash Flows
For the half-year 30 June 2017

	Consolidated entity	
	30 June	30 June
	2017	2016
	US\$	US\$
Cash flows from operating activities		
Receipt from customers (inclusive of GST)	315,869	24,420
Payments to suppliers and employees (inclusive of GST)	(8,372,960)	(2,474,754)
Royalties paid to chief scientist office	(14,905)	-
Interest received	3,987	3,667
Interest paid	(4,799)	(6,695)
Net cash (outflow) from operating activities	(8,072,808)	(2,453,362)
Cash flows from investing activities		
Payments for property, plant and equipment	(615,411)	(102,987)
Receipt / (Payment) from restricted cash	(143,996)	9,322
Funds transferred to term deposit	(11,458)	-
Net cash (outflow) from investing activities	(770,865)	(93,665)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities	769,213	62,345
Grants from governmental institutions	58,488	41,590
Transactions costs related to issue of ordinary shares	(4,995)	-
Net cash inflow from financing activities	822,706	103,935
Net (decrease) in cash and cash equivalents	(8,020,967)	(2,443,092)
Cash and cash equivalents at the beginning of the financial year	22,870,848	8,478,927
Effects of exchange rate changes on cash and cash equivalents	232,798	37,726
Cash and cash equivalents at end of period	15,082,679	6,073,561

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

1 General information and basis of preparation

These interim financial statements (the interim financial statements) of the Group are for the six months ended 30 June 2017 and are presented in United States Dollars, which is the Group's presentation currency. These general purpose interim financial statements have been prepared in accordance with the requirements of AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2016 and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the *Corporations Act 2001*.

The interim financial statements have been approved and authorised for issue by the board of directors on 29 August 2017.

2 Significant accounting policies

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Consolidated entity's last annual financial statements for the year ended 31 December 2016.

The accounting policies have been applied consistently throughout the Consolidated entity for the purposes of preparation of these interim financial statements. The principal accounting policies adopted are consistent with those of the previous accounting period and corresponding interim reporting period; unless stated otherwise.

3 Operating revenue

	Consolidated entity	
	30 June	30 June
	2017	2016
	US\$	US\$
Operating revenue		
MABR sales in Israel	-	245,939
MABR sales outside of Israel	361,080	176,641
	361,080	422,580

4 Segment information

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

The Group 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 is 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 half year ended 30 June 2017, there is no segment information to be disclosed for the subsidiaries based in Australia, Hong Kong and China ('Other') as there were no material reportable activities during the period.

4 Segment information (continued)

2017	Israel US\$	Total US\$
Segment revenue		
Operating revenue	361,080	361,080
Unallocated revenue - other	-	3,987
	<u>361,080</u>	<u>365,067</u>
Segment expense		
Segment depreciation and amortisation expense	(162,286)	(162,286)
Segment expense	(5,493,776)	(5,493,776)
Unallocated expenses - other	-	(6,858,347)
	<u>(5,656,062)</u>	<u>(12,514,409)</u>
Net result	<u>(5,294,982)</u>	<u>(12,149,342)</u>
Assets		
Segment assets	6,947,642	6,947,642
Unallocated assets - other	-	14,478,349
	<u>6,947,642</u>	<u>21,425,991</u>
Liabilities		
Segment liabilities	2,882,001	2,882,001
Unallocated liabilities - other	-	2,662,252
	<u>2,882,001</u>	<u>5,544,253</u>
Other information		
Acquisitions of PPE	489,674	615,411
Non current assets by geographical location	3,417,449	3,417,449
	<u>3,417,449</u>	<u>3,417,449</u>
2016	Israel US\$	Total US\$
Segment revenue		
Operating revenue	422,580	422,580
Unallocated revenue - other	-	3,667
	<u>422,580</u>	<u>426,247</u>
Segment expense		
Segment depreciation and amortisation expense	(151,011)	(151,011)
Segment expense	(2,092,649)	(2,092,649)
Unallocated expenses - other	-	(836,747)
	<u>(2,243,660)</u>	<u>(3,080,407)</u>
Net result	<u>(1,821,080)</u>	<u>(2,654,160)</u>
Assets		
Segment assets	9,343,784	9,343,784
Unallocated assets - other	-	763,557
	<u>9,343,784</u>	<u>10,107,341</u>

Fluence Corporation Limited (formerly Emefty Group Limited)
Notes to the Consolidated Financial Statements
30 June 2017
(continued)

4 Segment information (continued)

2016	Israel US\$	Total US\$
Liabilities		
Segment liabilities	1,857,092	1,857,092
Unallocated liabilities - other	-	1,124,238
	1,857,092	2,981,330
Other information		
Acquisitions of PPE	102,987	102,987
Non current assets by geographical location	3,103,840	3,103,840
<i>(a) Unallocated revenue - interest</i>		
	Other	
	30 June 2017	30 June 2016
	US\$	US\$
Unallocated revenue	3,929	3,667
<i>(b) Unallocated expenses</i>		
	Other	
	30 June 2017	30 June 2016
	US\$	US\$
Unallocated expenses - other	6,858,347	836,747
<i>(c) Unallocated assets</i>		
	Other	
	30 June 2017	30 June 2016
	US\$	US\$
Cash and cash equivalents	13,942,467	616,840
Other receivables	325,576	92,770
Prepayments	68,569	53,947
Inventory	16,000	-
Property, plant and equipment	125,737	-
	14,478,349	763,557
<i>(d) Unallocated liabilities</i>		
	Other	
	30 June 2017	30 June 2016
	US\$	US\$
Trade and other payables	1,662,252	124,238
Other liabilities	1,000,000	1,000,000
	2,662,252	1,124,238

Intersegment transactions

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

5 Dividends

No dividends were paid and no dividends are expected to be paid during the half year period ended in 30 June 2017 (2016: nil).

6 Loss per share

(a) Basic loss per share

	Consolidated entity	
	30 June 2017 Cents	30 June 2016 Cents
Loss attributable to the ordinary equity holders of the Group	(0.05)	(0.01)

(b) Diluted loss per share

Loss attributable to the ordinary equity holders of the Group	(0.05)	(0.01)
---	---------------	--------

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

Loss attributable to the ordinary equity holders of the Group used in calculating loss per share:	(12,149,342)	(2,654,160)
---	---------------------	-------------

(d) Weighted average number of shares used as denominator

Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	257,195,781	185,696,395
--	--------------------	-------------

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of Fluence Corporation Limited (formerly Emefcy Group Limited) as the numerator, i.e. no adjustments to profits were necessary during the six month period to 30 June 2017 and 30 June 2016.

7 Intangible assets

	Notes	30 June 2017 US\$	31 December 2016 US\$
Capitalised development costs			
Cost		2,286,877	2,286,877
Accumulation amortisation and impairment	7(a)	(228,688)	(153,329)
Closing cost		2,058,189	2,133,548

(a) Intangible assets – amortisation

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.

8 Other financial liabilities

	Consolidated entity	
	30 June 2017 US\$	31 December 2016 US\$
Current		
Acquisition milestone 2 payable	<u>1,000,000</u>	1,000,000
	<u>1,000,000</u>	<u>1,000,000</u>

As part of the transaction between Fluence Corporation Limited (formerly Emefty Group Limited) and Emefty Limited (Israel), a maximum liability of US\$2 million is payable to a shareholder of Emefty Limited (Israel) on completion of the acquisition in lieu of receiving shares in Fluence Corporation Limited (formerly Emefty 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 follows:

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 30 June 2017, the directors of the Group are satisfied that the second milestone will be achieved in the next few months and have provided for the amount payable.

9 Issued capital

(a) Share capital

	Notes	30 June 2017 Shares	31 December 2016 Shares	30 June 2017 US\$	31 December 2016 US\$
Ordinary shares	9(b)	281,656,054	279,551,054	52,035,727	51,271,509
Options	9(c)	21,362,946	18,742,946	3,334,415	1,857,910
		303,019,000	298,294,000	55,370,142	53,129,419

(b) Ordinary shares

	Number of shares	US\$
Opening balance 1 January 2016	177,437,410	28,325,226
Private placement issued at AU\$0.64 per share	49,400,000	22,595,948
Shares issued to consultants during the year	150,000	81,517
Exercise of options	7,563,644	355,078
Issue of deferred consideration shares	22,500,000	-
	<u>257,051,054</u>	<u>51,357,769</u>
Transaction costs arising on share issue	-	(86,260)
Deferred consideration shares to be issued - Milestone 2	22,500,000	-
	<u>279,551,054</u>	<u>51,271,509</u>
Balance 31 December 2016	279,551,054	51,271,509

9 Issued capital (continued)

(b) Ordinary shares (continued)

Opening balance 1 January 2017	257,051,054	51,271,509
Exercise of options	2,105,000	769,213
	<u>259,156,054</u>	<u>52,040,722</u>
Transaction costs arising on share issue	-	(4,995)
Deferred consideration shares to be issued	22,500,000	-
Balance 30 June 2017	<u>281,656,054</u>	<u>52,035,727</u>

(c) Options

	Number of shares	US\$
Opening balance 1 January 2016	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
Exercise options	(7,563,644)	-
Cancelled options	(1,550,000)	(54,578)
Balance 31 December 2016	<u>18,742,946</u>	<u>1,857,910</u>
Opening balance 1 January 2017	18,742,946	1,857,910
Unlisted options issued to employees	375,000	179,257
Unlisted options issued to consultants	4,350,000	1,205,653
Unlisted options issued to Directors	-	91,595
Exercise options	(2,105,000)	-
Balance 30 June 2017	<u>21,362,946</u>	<u>3,334,415</u>

10 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).

10 Recognised fair value measurements (continued)

Fair value hierarchy (continued)

30 June 2017	Notes	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<i>Financial liabilities</i>					
Government grant liability		-	-	1,492,577	1,492,577
<i>Other financial liabilities</i>					
Acquisition Milestone 2 payable	8	-	-	1,000,000	1,000,000
Total non-financial liabilities		-	-	2,492,577	2,492,577
31 December 2016	Notes	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<i>Financial liabilities</i>					
Government grant liability		-	-	1,224,444	1,224,444
<i>Other financial liabilities</i>					
Acquisition Milestone 2 payable	8	-	-	1,000,000	1,000,000
Total non-financial liabilities		-	-	2,224,444	2,224,444

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% (2016: 13.7%)

Reconciliation of Level 3 fair value movements

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

	Government grant US\$
Opening balance at 1 January 2016	1,175,000
Adjustment to fair value of liability	49,444
Opening balance at 31 December 2016	1,224,444
Adjustment to fair value of liability	268,133
Opening balance at 30 June 2017	1,492,577

11 Commitments and contingencies

- (a) The Group leases premises for the period ended 30 June 2017. The aggregate minimum rental commitments under the non-cancellable rent agreements as at 30 June 2017 are \$1,107,000 (31 December 2016: \$1,160,000). Total rent expenses for the period ended 30 June 2017 and year ended 31 December 2016 were US\$190,000 and \$139,000, respectively.
- (b) The Group leases its motor vehicles under lease agreements. As at 30 June 2017, the minimum payment under these operating leases is approximately US\$65,000 (31 December 2016: \$49,373).
- (c) As at 30 June 2017 and 31 December 2016, the Group provided a bank guarantee for the fulfilment of its lease commitments in the amount of approximately US\$162,000 and \$19,000, respectively.
- (d) The Group has a government grant liability of US\$1,492,577 (31 December 2016: \$1,224,444).

11 Commitments and contingencies (continued)

Other than the changes already disclosed, the Group is not aware of any commitments and contingencies as at 30 June 2017.

12 Events occurring after the reporting period

(a) On 14 July 2017 (the 'Completion Date') Fluence Corporation Limited (formerly Emefty Group Limited) announced the finalisation of the acquisition of RWL Water LLC ('RWL'), a global provider of water, wastewater and reuse solutions based in US from RSL Investments Corporation ('RSL'). The acquisition is intended to create a global provider of innovative, decentralized water and wastewater treatment solutions for both municipal and industrial applications.

The acquisition of RWL included the following transactions:

- (1) Fluence have acquired 100% of RWL interests for a consideration comprising the issue of 100.5 million fully paid ordinary shares ('Consideration Shares') in Fluence to RSL.
- (2) RSL invested \$20M in Fluence through a private placement. The private placement was based on a share price of AU\$0.850 per share.
- (3) RSL will be restricted from selling, transferring or otherwise disposing of any the Consideration Shares for two years commencing from the Completion Date according to conditions in the Share Purchase Agreement dated 26 May 2017.

Following the acquisition the company changed its name to Fluence Corporation Limited ('Fluence'). Headquarters have moved to New York with significant sales, engineering and manufacturing capabilities in China, USA, Israel, Argentina, Brazil, Mexico and Italy.

Due to the proximity of the acquisition to the release of the financial statements, it is impractical at this stage to include other disclosures in relation to the business combination such as purchase price accounting including the fair value of net assets acquired, the goodwill and intangibles, the amount of revenue and profit or loss of RWL post acquisition due to the acquisition accounting not being finalised at the date of the release of the 30 June 2017 half-year report.

(b) On 8 August 2017, Fluence announced a US\$11M investment had been made in the Combined Group through a private placement. The private placement was based on a share price of AUD\$0.850 per share.

Fluence Corporation Limited (formerly Emefty Group Limited)
Directors' Declaration
30 June 2017

In the directors' opinion:

- (a) the interim financial statements and notes set out on pages 6 to 17 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with 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 30 June 2017 and of its performance for the half-year 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, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Note confirms that the interim 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
Executive Director
Israel
30 August 2017



Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Collins Square, Tower Four
Level 18, 727 Collins Street
Melbourne VIC 3008
GPO Box 5099 Melbourne VIC 3001
Australia

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Fluence Corporation Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Fluence Corporation Limited, which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Fluence Corporation Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Fluence Corporation Limited is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO East Coast Partnership

A handwritten signature in blue ink, appearing to read 'David Garvey'. Above the signature is a small, stylized logo consisting of the letters 'BDO' in a cursive, blue font.

David Garvey
Partner

Melbourne, 30 August 2017