

Environmental Clean Technologies Limited
(formerly Environmental Solutions International Limited)

Appendix 4 D

For the Period Ended 31 December 2006

ACN 009 120 405

This Half Year Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3

In accordance with ASX Listing Rule 4.2C.2, this Half Year Report should be read in conjunction with the most recent annual financial report, being 30 June 2006.

Current Reporting Period: Half Year Ended 31 December 2006

Previous Corresponding Period: Half Year Ended 31 December 2005

Environmental Clean Technologies Limited
(formerly Environmental Solutions International Limited)

Half Year Report
for the Period Ended 31 December 2006

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Environmental Clean Technologies Limited
(formerly Environmental Solutions International Limited)

Half Year Report
For the Period Ended 31 December 2006

Section A: Results For Announcement to the Market

	%	Half year ended 31 December 2006	Half year ended 31 December 2005
Operating Performance		\$	\$
Revenue from ordinary activities	n/a	94,332	-
Loss from ordinary activities after tax attributable to members	109%	(1,169,133)	(560,114)
Net loss for the half year attributable members	109%	(1,169,133)	(560,114)

Dividends

There are no distributions reinvestment plans in operations and there has been no dividend payment during the financial half year ended 31 December 2006, nor is any dividend payment proposed.

	31 December 2006	31 December 2005
Net tangible assets per ordinary security	\$	\$
Net tangible assets	840,648	728,390
Number of shares on issue at reporting date	250,722,203	227,434,974
Net tangible assets per ordinary share	0.33 cents	0.32 cents

Comparative financial information

The entity was not a consolidated entity at 31 December 2005, and accordingly only parent entity figures covering the period to 31 December 2005 in the tables above are shown. However, the net tangible assets per ordinary security is calculated based on the issued share capital of Environmental Clean Technologies Limited.

Environmental Clean Technologies Limited **(formerly Environmental Solutions International Limited)**

Half Year Report **For the Period Ended 31 December 2006**

Section B: Commentary on Results

Brief Explanation of Revenue and Operating Results

The company is continuing to make progress with the commercialisation of the Coldry and Matmor technologies. Some of the progress that has been made includes:

1. Discussions are progressing on a licensing and JV arrangements for the Australian region and similarly discussions are in progress with strategic partners for the identified Asian markets. The parties have an interest in exploiting both the Coldry Clean Coal and Matmor Steel technologies.
2. Activities on the upgrade of the Coldry pilot plant at Bacchus Marsh are continuing, all equipment is on site and installation is well advanced. The Matmor steel test retort has been relocated from Altona to Bacchus Marsh and retrofitting of the furnace and other equipment is continuing. Once the plants are operational again a number of interested parties that have been introduced through Aust Industry and other sources, will be invited to inspect the facility.

The operational pilot plant will also enable a range of products to be tested, supporting commercialisation.

3. MECRUS Pty Ltd have been engaged by ECT to manage the Coldry clean coal pilot plant upgrade project, operation and asset management functions under a performance based arrangement. This engagement will deliver a clearer transition path to operation of the facility. MECRUS have extensive experience in operations and maintenance in brown coal power generation, water and waste industries. Through their experience accessed via this relationship MECRUS will bring synergies to the ECT business.
4. The Coldry pellets produced at the pilot plant are anticipated to be supplied to Hazelwood Power Station, subject to concluding commercial arrangements for a formal off-take agreement. Cost of production and material and transport arrangements are being advanced.
5. Preparation of a revised business plan undertaken in anticipation of finalising arrangements with counterparties on commercialisation of the technologies.

To satisfy the credit requirements of any future funding solutions, the management will be seeking to enlist the services of a world leading specialist in clean coal technology valuation, targeting a bankable valuation of their Coldry clean coal, Matmor steel and Enersludge technology. Similar to what has recently been undertaken by other clean coal technology companies.

6. ECT has received payments from Sustainability Victoria Fund under the \$238,000 grant previously announced.
7. Discussions are progressing with parties for an increased focus on investor and Public Relations, in line with the completion of the plant upgrades.

ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED

(formerly Environmental Solutions International Limited)

ACN 009 120 405

Financial report for the half-year ended 31 December 2006

Financial report for the half-year ended 31 December 2006

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Directors' report

The directors of Environmental Clean Technologies Limited (formerly Environmental Solutions International Limited) submit herewith the financial report for the half-year ended 31 December 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the Directors of the Company in office during or since the end of the financial period are:

<u>Name</u>	<u>Particulars</u>
Murray D'Almeida	<p>Chairman and Managing Director, Executive Director, joined the board on 23 May 2006. He has 30 years national and international business experience. He began his career with a firm of Chartered Accountants in Perth. He founded Retail Food Group Australia and was instrumental in the growth of that company's brands Donut King and BB's Coffee to in excess of 300 stores in Australia and in 9 other countries.</p> <p>He has also been involved in the restaurant, wholesaling, farming and liquor industries. Murray is currently extensively involved in Food Importation and Distribution.</p> <p>He sits on several Boards, is the Chairman of Bartercard Australia and is a Director of the London Stock Exchange listed, Bartercard International P.L.C. He has also recently been appointed Chairman of The Institute of Business Leaders.</p> <p>Murray was formerly a Director of the Australian Small Business Association, the Franchisors Association of Australia and New Zealand, Capricorn Resources N.L. (an Australian Stock Exchange listed mining company), and has held a variety of non-executive positions with the Queensland Branch of the Liberal Party of Australia, both as a member of the Finance Committee and the Queensland State Executive.</p>
Sachlan Fraval	<p>Executive Director, joined the board on 27 October 2005.</p> <p>Mr Fraval is an accountant by training and a former Fellow of the Institute of Chartered Accountants, London. During 1966 to 1971 he was Articled to Turquand Young & Co, now Ernst & Young.</p> <p>Mr Fraval has over 30 years experience in corporate and business development of private and public companies in the UK, USA and Australia. He has been actively involved as a director of high tech companies in development and marketing of lasers, hand held computers, forensic science equipment, biometrics solutions and light guide products.</p>
Greg Fendis Ba.Comms (RMIT)	<p>Non - Executive Director, joined the board on 27 October 2005. Retired 17 December 2006.</p> <p>Mr Fendis has had extensive experience in the design, installation and commissioning of large complex computer-based systems. In particular he specialises in Smart Card Technology and ID based card systems. He has an understanding of smart card products, technology issues, marketing and customer needs. His technology experience spans over 20 years.</p>
John McMullan	<p>Non - Executive Director, joined the board on 22 June 2006. Mr. John McMullan B Eng (Civil), LL B, LL.M, FIEAust, FIAMA has degrees in both law and engineering in addition to being a fellow of the Institute of Engineers Australia. Mr. McMullan is the principal of a</p>

Tony Gates

specialist Melbourne legal practice. Mr. McMullan brings a wealth of commercial, legal and engineering expertise to the ESI board. Non-Executive Director, joined the board on 26 October 2006.

Mr Gates is an exploration geologist who has been instrumental in various major resource developments.

Among others, Mr Gates has held the positions of:

- Managing Director – Clackline Refractories Ltd – later to become Herald Resources NL
- Chairman and Managing Director of Capricorn Resources Australia NL (CCR). Responsible to CCR for the discovery of the Emily Ann Nickel deposit, Kurnalpi Gold Discovery, and feasibility studies for Malaysian Marble deposits.
- Director of Australian Kimberley Diamond Ltd and responsible for the acquisition of the Seppelts Range/Casuarina diamond project

Mr Gates brings to the ECT board more than 40 years national and international business experience. He began his career with the Joint Coal Board of NSW, and has since gained extensive industry experience all over the world, including countries such as France, Papua New Guinea, Malaysia, Indonesia, Africa, Russia, Vietnam, Iran, New Zealand USA and Greenland.

Mr Gates is widely acknowledged as a leading member of the resources sector. He is a Fellow of a number of Institutions, including the Australasian Institute of Mining and Metallurgy, and the Australian Institute of Company Directors. He is also a member of a number of industry associations and societies, such as the Mining Industry Consultants Association and Society of Economic Geologists.

Mr Gates was formerly a Councillor of the Association of Mining and exploration Companies Inc., as well as Chairman of the Mining Act Committee.

Company Secretary

Mr Sean Henbury
(appointed 21 December 2005)

Mr Sean Henbury is a Chartered Accountant who is a founding principal of the accounting firm FJH Solutions Pty Ltd. He has been company secretary of a number of companies and is regularly called upon to advise Directors of their duties.

Operating results

The consolidated net loss from ordinary activities after providing for income tax amounted to \$1,169,133 (2005: loss of \$560,114).

Review of operations

The company is continuing to make progress with the commercialisation of the Coldry and Matmor technologies. Some of the progress that has been made includes:

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The operational pilot plant will also enable a range of products to be tested, supporting commercialisation.

Environmental Clean Technologies Limited

(formerly Environmental Solutions International Limited)

Directors' report

3. MECRUS Pty Ltd have been engaged by ECT to manage the Coldry clean coal pilot plant upgrade project, operation and asset management functions under a performance based arrangement. This engagement will deliver a clearer transition path to operation of the facility. MECRUS have extensive experience in operations and maintenance in brown coal power generation, water and waste industries. Through their experience accessed via this relationship MECRUS will bring synergies to the ECT business.
4. The Coldry pellets produced at the pilot plant are anticipated to be supplied to Hazelwood Power Station, subject to concluding commercial arrangements for a formal off-take agreement. Cost of production and material and transport arrangements are being advanced.
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To satisfy the credit requirements of any future funding solutions, the management will be seeking to enlist the services of a world leading specialist in clean coal technology valuation, targeting a bankable valuation of their Coldry clean coal, Matmor steel and Enersludge technology. Similar to what has recently been undertaken by other clean coal technology companies.

6. ECT has received payments from Sustainability Victoria Fund under the \$238,000 grant previously announced.
7. Discussions are progressing with parties for an increased focus on investor and Public Relations, in line with the completion of the plant upgrades.

Auditor's independence declaration

The auditor's independence declaration is included on page 5 of the half-year financial report

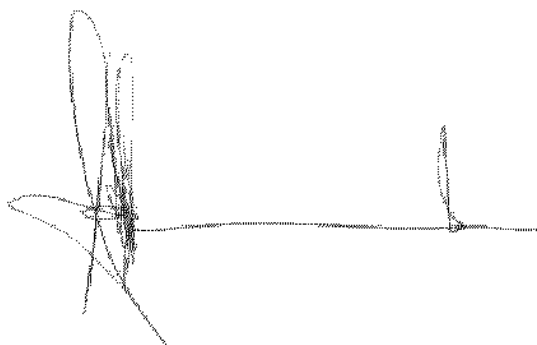
Subsequent events

Subsequent to the half year end the Company issued \$2M of convertible notes. On 31 January 2007 \$1M was received by ECT with \$1M is expected to be received in March 2007. The convertible notes are unsecured, with a yield of 7.5% per annum and each note has the right to convert into one ordinary share at a strike price of 30c per share but escrowed for the first 12 months.

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Murray D'Almeida', is written over a horizontal line. The signature is stylized and somewhat messy.

Murray D'Almeida

Director

Melbourne, Victoria, 28 February 2007



Chartered Accountants
& Business Advisers

28 February 2007

Board of Directors
Environmental Clean Technologies Limited
Level 13
222 Kings Way
SOUTH MELBOURNE VIC 3205

Dear Directors

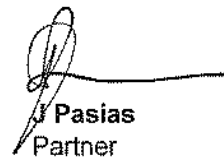
INDEPENDENCE DECLARATION

As lead engagement partner for the review of Environmental Clean Technologies Limited for the half-year ended 31 December 2006, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.



PKF
Chartered Accountants



J Pasias
Partner



Chartered Accountants
& Business Advisers

QUALIFIED INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Environmental Clean Technologies Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Environmental Clean Technologies Limited ('ECT Limited), which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement or description of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising ECT Limited and the entities it controlled at 31 December 2006 or from time to time during the half-year ended on that date.

Directors' Responsibility for the Half-Year Financial Report

The directors of ECT Limited are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 an Interim 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of ECT Limited's financial position as at 31 December 2006 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 ECT 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*.



Chartered Accountants
& Business Advisers

Qualification – Consolidated entity Comparatives

The financial report of Environmental Clean Technologies Limited as at 30 June 2006, was audited by another auditor, Deloitte whose report dated 29 September 2006, expressed a disclaimer of audit opinion on those statements. We were unable to obtain sufficient appropriate audit evidence regarding the comparatives

Qualified Statement

Except for the matters highlighted in the qualification paragraph above, 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 Environmental Clean Technologies Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
 - ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Material Uncertainty Regarding Continuation as a Going concern

Without further qualification, attention is drawn to the following matter. As a result of the matters described in Note 9 'Going Concern', there is a material uncertainty which may raise significant doubt about the ability of the consolidated entity to continue as a going concern and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

No adjustments have been made to the financial report relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary if the entity does not continue as a going concern.



PKF
Chartered Accountants



J. Pasias
Partner

Melbourne
28 February 2007

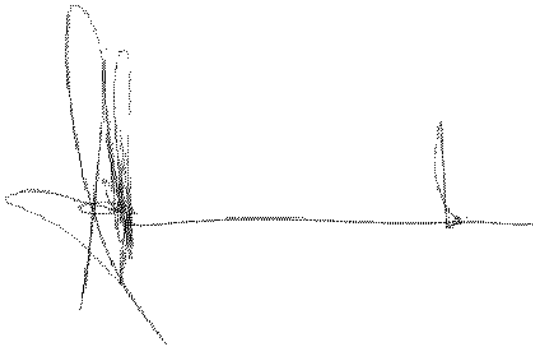
Directors' declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Murray D'Almeida', is written over a horizontal line. The signature is somewhat stylized and overlaps the line.

Murray D'Almeida
Director
Melbourne, Victoria, 28 February 2007

Condensed consolidated income statement for the half-year ended 31 December 2006

	Consolidated	
	Half-year ended 31 December 2006	Half-year ended 31 December 2005
Revenue from ordinary activities	94,332	-
Material and subcontractor expenses	(451,384)	-
Employee benefits expense	(85,872)	(1,667)
Depreciation & amortisation expense	(1,488)	-
Occupancy expense	(59,774)	(10,182)
Patent fees	(28,901)	-
Corporate costs	(259,098)	(51,267)
Consultancy	(123,826)	(454,815)
Travel & Accommodation	(29,418)	(26,907)
Insurance	(78,923)	-
Other expenses from ordinary activities	(143,781)	(15,276)
<i>Loss before income tax expense</i>	(1,168,133)	(560,114)
Income tax expense	-	-
<i>Loss after related income tax expense</i>	(1,169,133)	(560,114)
<i>Net loss attributable to the members of the parent entity</i>	(1,169,133)	(560,114)
<i>Earnings Per Share</i> - Basic (cents per share)	(0.48)	(0.24)
- Diluted (cents per share)	(0.48)	(0.24)

Notes to the financial statements are included on pages 13 to 15.

Condensed consolidated balance sheet as at 31 December 2006

	Consolidated	
	31 December 2006	30 June 2006
<i>Current Assets</i>		
Cash and cash equivalents	40,359	217,289
Trade and other receivables	212,207	142,517
Other current assets	34,333	34,333
Total Current Assets	286,899	394,139
<i>Non-Current Assets</i>		
Property, Plant and Equipment	553,749	15,464
Total Non-Current Assets	553,749	15,464
Total Assets	840,648	409,603
<i>Current Liabilities</i>		
Trade and other payables	1,334,948	331,270
Borrowings	300,000	-
Total Current Liabilities	1,634,948	331,270
Total Liabilities	1,634,948	331,270
Net Assets /(Liabilities)	(794,300)	78,333
<i>Equity</i>		
Issued Capital	24,288,553	23,992,053
Accumulated Losses	(25,112,853)	(23,943,720)
Reserves	30,000	30,000
Total (Deficiency)/Equity	(794,300)	78,333

Notes to the financial statements are included on pages 13 to 15.

Condensed consolidated statement of changes in equity for the half-year ended 31 December 2006

	Consolidated	
	Half-Year Ended 31 December 2006	Half-year Ended 31 December 2005
Accumulated losses		
Accumulated losses at the beginning of the period	(23,943,720)	(123,625)
Net loss for period	(1,169,133)	(560,114)
Accumulated Losses At The End Of The Period	(25,112,853)	(683,739)
 Share Capital		
Share capital at the beginning of the period		
Fully paid shares – 245,516,648	23,992,053	213,000
Shares issued – 5,205,555	296,500	1,016,034
Share Capital At The End Of The Period - 250,722,203 Fully Paid Shares	24,288,553	1,229,034

Notes to the financial statements are included on pages 13 to 15.

Condensed consolidated cash flow statement for the half-year ended 31 December 2006

	Consolidated Inflow/(Outflow)	
	Half-year ended 31 December 2006	Half-year ended 31 December 2005
<i>Cash Flows from (Used In) Operating Activities</i>		
Interest received	2,210	-
Miscellaneous income cash amounts	88,715	-
Payments to suppliers and employees	(702,422)	(542,777)
<i>Net Cash Flow Used In Operating Activities</i>	(611,497)	(542,777)
<i>Cash Flows from Investing Activities</i>		
Payments for property, plant and equipment	(161,933)	(2,583)
<i>Net Cash Used in Investing Activities</i>	(161,933)	(2,583)
<i>Cash Flows from Financing Activities</i>		
Proceeds of borrowings	300,000	-
Proceeds from the issue of shares	296,500	1,091,639
<i>Net Cash from(Used in) Financing Activities</i>	596,500	1,091,639
<i>Net Increase (Decrease) in Cash Held</i>	(176,930)	546,279
Cash and cash equivalents held at the beginning of the financial period	217,289	48,113
<i>Cash and cash equivalents at the end of the Financial Period</i>	40,359	594,392

Notes to the financial statements are included on pages 13 to 15.

Notes to the financial statements for the half-year ended 31 December 2006

1. Basis of preparation of half-year financial statements

This general purpose financial report for the interim half-year reporting period ended 31 December 2006 has been prepared in accordance with Australian Accounting Standard 134 "Interim Financial Reporting: and the Corporations Act 2001.

The historical cost basis has been used, except for intangible assets acquired in a business combination which have identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

This interim report does not include all the notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2006 and any public announcements made by Environmental Clean Technologies Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in this interim financial report as compared with the most recent annual financial report.

The entity was not a consolidated entity at 31 December 2005, and accordingly only parent entity figures covering the period to 31 December 2005 in the Income Statement, Statement of Changes in Equity and the Cash Flow Statement are shown. However, the loss per share data is calculated based on the issued share capital of ECT.

2. Loss for the half-year

Specific items

Loss before income tax expense includes the following revenue and expenses whose disclosure is relevant in explaining the performance of the consolidated entity:

	Consolidated	
	Half-year ended 31 December 2006	Half-year ended 31 December 2005
(i) Revenue		
Interest – other parties	2,210	-
Office subtenants	42,391	-
Miscellaneous income	49,731	-
	94,332	-

2. Loss for the half-year (continued)

	Consolidated	
	Half-year ended 31 December 2006 S'000	Half-year ended 31 December 2005 S'000
(ii) Expenses		
Accounting, management and company secretarial fees	59,178	35,983
Audit fees	57,748	-
Consultancy fees	118,426	454,815
ASX fees	36,289	-
Directors fees	40,000	-
Office – IT support services	49,264	-
Legal fees	128,409	4,427
Patent fees	28,902	-
Salary and wages	43,039	1,667
Rent and outgoings	59,774	10,182
Telephone	24,027	1,411
Travel and accommodation	29,418	26,907
Insurance	78,923	-
Pilot plant materials and subcontract expenses	451,384	10,624

3. Subsequent events

Subsequent to the half year end the Company issued \$2M of convertible notes. On 31 January 2007 \$1M was received by ECT with \$1M is expected to be received in March 2007. The convertible notes are unsecured, with a yield of 7.5% per annum and each note has the right to convert into one ordinary share at a strike price of 30c per share but escrowed for the first 12 months.

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

4. Segment Information

The company operates solely within the research and development industry in Australia.

5. Issuances, repurchases and repayments of securities

During the half-year reporting period, Environmental Solutions International Ltd undertook the following transactions with shareholders:

1. The Company issued 4,650,000 fully paid ordinary shares for \$46,500 by way of exercise of options; and
2. The Company issued 555,555 fully paid ordinary shares for \$250,000.

6. Dividends

No dividends have been paid or declared since the start of the financial period, and none are recommended.

7. Contingent assets and liabilities

There have been no changes in contingent liabilities or contingent assets since the last annual reporting date of 30 June 2006.

8. Prior Period Adjustment

In accordance with AABS 136 "Impairment of Assets" the half-year financial report for six month period to 31 December 2006 recognises an error to the 30 June 2006 balance sheet comparative. The carrying value of intangible assets of \$16,387,629 and the associated deferred tax liability of \$4,916,289 as at 30 June 2006 have subsequently been found to be impaired as at 30 June 2006. In accordance with AASB 108 "Accounting Policies, Changes in Accounting Estimates and Errors" ECT has corrected the prior period error retrospectively by restating the balance sheet and the comparative amounts for the prior period. The effect of this error is a write down of intangible assets of (\$16,387,629) and deferred tax liability of \$4,916,000. This has increased the retained losses at 30 June 2006 by \$11,471,629.

9. Going concern

For the half year ended 31 December 2006, the consolidated entity had a negative asset position of \$794,300, a loss of \$1,169,133, and a negative cash flow of \$176,920. Further, the consolidated entity does not have a source of income until such time as the pilot plant is finalised, but is reliant upon equity capital or loans from third parties for its ongoing funding requirements.

The accounts have been prepared on the basis of going concern, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The directors believe this to be appropriate for the following reasons:

- If the consolidated entity chooses to maintain its current high level of research and development expenditure, it will have to raise additional capital.
- If the consolidated entity does not raise additional capital in the short term it can continue as a going concern by substantially reducing research and development expenditure until funding is available and/or entering joint venture arrangements.

The Directors consider that the Company can continue to obtain investor support to meet its further funding requirements as evident by the \$2 million raised by way of the issue of a convertible note subsequent to half year end.

The Directors are of the opinion that the basis upon which the financial statements are prepared is appropriate in the circumstances.