ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED

(Formerly Environmental Solutions International Limited)

ACN 009 120 405

Annual Report

30 June 2007

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ANNUAL REPORT

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Directors' Report

The directors present their report together with the financial report of ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED (the Company) and of the consolidated entity, being the Company and its controlled entities (the Group), for the year ended 30 June 2007.

Directors

The following persons were directors of the Company during the financial year and up to the date of this report :

M d'Almeida - Chairman
C Galtos – Managing director (from 14 May 2007 to 30 June 2007)
J McMullan – Non executive director
T Gates - Executive director (from 26 October 2006 to 29 June 2007)
S Fraval – Executive director
G Fendis – Non-executive director (from 1 July 2006 to 17 December 2006)
J Hutchinson – Non-executive director (from 29 June 2007 to 30 June 2007)

Principal Activities

The principal continuing activities of the Group during the year consisted of research, development and commercialisation of dewatering of brown coal and related technology.

Consolidated Results and Review of Operations

The results of the Group for the year were as follows:

	2007 $	2006 $
(Loss)/profit from continuing operations before related income tax expense	(3,406,993)	(23,820,000)
Income tax (expense)/benefit relating to ordinary activities	-	-
Net loss attributable to members of the company	(3,406,993)	(23,820,000)

Dividends

No dividends were paid or declared by the Company to members during or after the year end.

Directors' Report

Review of Operations

Environmental Clean Technologies Limited reported as Environmental Solutions International Limited last year but changed its name in December 2006 to Environmental Clean Technologies Limited ("ECT") to align the ongoing activities of the Company with its values and philosophies. The primary focus of the Company is the reduction of carbon emissions and environmental damage through investment and licensing of commercially practical and environmentally clean technologies and processes.

The 2007 Financial Year was one in which ECT undertook substantial expenditure to achieve finalisation of development of the Coldry™ process, continued research and development of the Matmor™ process and moving its head office to Melbourne concurrent with the upgrade of the Bacchus Marsh pilot plant.

The ensuing period will see revenue inflow into the Company as the Coldry™ technology is commercialised followed by commercialisation of the Matmor™ steel making process in the latter part of the financial year.

The Company is justifiably proud of the Coldry™ process which is the world's first economic method of dewatering brown coal (to an average of 12%), to create storable, stable, black coal substitute feedstock, with which it has equal or better energy value. The high chemical reactivity of Coldry™ pellets delivers higher oil yield per tonne of coal and enables the product to be the ideal front end feedstock solution for coal-to-oil technologies, eliminating the need for costly and energy intensive oil slurry drying.

In October 2006 the Victorian Government recognised the contribution that the Coldry™ process would make to the sustainability of the coal industry and awarded ECT a grant of $213,000 in revenue from the Victorian Sustainability Fund to support the development of the Coldry™ technology water recovery process which is now achieving the recovery of one tonne of clean water for every one tonne of dried pellets produced through the Coldry™ process. The Company intends to seek available research and development grants as the processes mature and are exported.

During the financial year the Company raised $2.0M in funds through a convertible note and a little over $0.4M through the exercise of equity and seed options issued in 2005 on the Company re-listing on the ASX.

To facilitate the commercialisation of the company's products and its export aims the Board of Directors appointed experienced businessman Mr Con Galtos, to the position of Managing Director in May 2007. Mr Galtos has extensive experience and alliances in the finance and investment industries and has successfully concluded several company reconstructions over the past years.

The future for ECT looks very bright with its leading edge sustainable coal technology, revolutionary steel making process and excellent technical and management teams. We anticipate income flow through strategic alliances and take up by local and global industry as the impetus for environmental sustainability increases in the coming year.

Matters Subsequent to the End of the Financial Year

There have been two significant events occurring after balance date which have significantly affected or may significantly affect Environmental Clean Technology's operations or results of those operations or Environmental Clean Technology's state of affairs in future financial years.

On 7 August 2007 the directors announced that they had secured an equity line of credit facility for up to $8M subject to satisfactory due diligence being entered into. On 5 September 2007, the company entered into a $15M Equity Line of Credit with Fortrend Securities. The Equity Line of Credit will enable the company to continue with its commercialisation of the Coldry™ technology and further advance its other technology and provide working capital.

On 13 August 2007 the directors announced $2.5M funding secured by way of private placement for the company's operating expenses for the next two years.

Directors' Report

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the consolidated entity which occurred during the financial period are as outlined in the review of operations above.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the consolidated entity that occurred during the year under review not otherwise disclosed in this report or in the consolidated accounts.

Likely Developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future years and the expected results of these operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental Regulation

The economic entity's operations are not subject to any significant environmental regulations under the Commonwealth, State or any other country in which the entity operates.

Directors' Information

Details of the directors' qualifications, experience, other directorships, special responsibilities and relevant interests are as follows:

Mr Murray d'Almeida
Non-Executive Chairman
Mr d'Almeida joined the board in May 2006 and has chaired it since joining. Mr d'Almeida is a qualified Chartered Accountant having begun his career in Perth where he founded Retail Food Group Australia the proprietors of the brands Donut King and BB's Coffee now in over 300 stores in Australia and in 9 countries globally. Murray has continued his extensive involvement in food importation and distribution.

Murray was formerly a director of the Australian Small Business Association, the Franchisors Association of Australia and New Zealand, Capricorn Resources N.L. and has held a variety of positions with the Queensland Branch of the Liberal Party of Australia, both as a member of the Finance Committee and the Queensland State Executive.

With over 30 years of national and international business experience Mr D'Almeida is a sought after director and currently sits on several other boards. He is Chairman of Bartercard Australia and The Institute of Business Leaders and is a director of the LSE listed Bartercard International P.L.C.

Mr John McMullan LLB, LLM, B Eng (Civil), FIEAust, FIAMA
Mr McMullan is a Melbourne solicitor, and has degrees in engineering and law. He has substantial experience on major legal transactions, and was, for several years, the Melbourne head of property and construction at a major Australian law firm.

Directors' Report

Directors' Information (cont.)

Mr John Hutchinson Dip Eng (Mech) FIEAust CPE RFD ED (appointed 29 June 2007)
Non-Executive Director
Mr John Hutchinson brings to the board a wealth of engineering experience in the coal and utilities field. John was born, educated and initially employed at Yallourn in the Latrobe Valley region of Victoria. He held a variety of positions leading to being a key member of the senior management team within the State Electricity Commission. John was responsible for $12B electricity generating, coal production and Latrobe Valley SEC assets and their performance during his employment with SEC. Mr Hutchinson was appointed General Manager of the Coal Corporation of Victoria and was the first CEO of Energy Brix Australia, guiding it to profitability from an inherited loss situation.

Mr Hutchinson's experience in the coal industry incorporated major brown coal boilers, high pressure steam and gas turbines and associated plant, coal winning and handling systems and briquette manufacturing factories. Mr Hutchinson is a board member of Gippsland Regional Economy and Ecology Network Inc.

Mr Con Galtos MBE FAICD (appointed 14 May 2007)
Managing Director
Mr Con Galtos was appointed Managing Director of the Company on 14 May 2007. He is an experienced businessman who has successfully concluded several company reconstructions. He has extensive experience in the finance and investment industries, and has been instrumental in the establishment and management of a number of successful businesses.

Mr Galtos is also on the Board of Directors of Electronic Exchanges Limited and a number of private companies.

Company Secretaries

Ms Jan Macpherson MBA, LLB, Grad Dip App Corp Gov. MAICD ACIS (appointed 14 August 2007)
Ms Macpherson provides company secretarial services to the company on a part time basis through her legal firm Barwon Law. Jan is an experienced practising lawyer, registered tax agent and chartered secretary. She is also Company Secretary of listed VoIP company Freshtel Holdings Limited, listed search engine and on line media company Ansearch Limited, the revamped listed company Water Wheel Holdings Limited and explosives company Global Seismic Solutions Pty Ltd. Jan serves on the boards of SSK Real Estate Pty Ltd, Global Seismic Solutions (NZ) Ltd and the environmental not-for-profit organisation, Greening Australia (Vic) Ltd and is a government appointed councillor on the Victorian Environmental Assessment Council.

Ms Macpherson has previously chaired committees for the Minerals Council of Australia and the Law Council of Australia and was appointed as Company Secretary on 14th August 2007.

Mr Bruce Patterson LLB (appointed 1 June 2007, resigned 14 August 2007)

Mr Sean Henbury (resigned 1 June 2007)

Directors' Report

Meetings of Directors

The following table sets out the number of directors' meetings and meetings of committees of directors held during the year ended 30 June 2007 and the number of meetings attended by each director.

	Board		**Audit and Risk Committee (estab 23.7.07)**		**Remuneration and Nomination Committee (estab 23.7.07)**	
	No eligible to attend	**No. attended**	**No. eligible to attend**	**No. attended**	**No. eligible to attend**	**No. attended**
Murray d'Almeida	13	13	-	-	-	-
John McMullen	13	13	-	-	-	-
Con Galtos	3	3	-	-	-	-
John Hutchinson	-	-	-	-	-	-
Anthony Gates	6	6	-	-	-	-
Sachlan Fraval	12	11	-	-	-	-
Greg Fendis	6	6	-	-	-	-

Remuneration Report

Some of the information provided in the Remuneration Report is provided in accordance with Accounting Standard AASB124 "Related Party Disclosures". These disclosures have been transferred from the financial report under Schedule 5B of the Corporations Regulations 2001 and have been audited as identified in the headings of each section.

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

The Board is responsible for making recommendations on remuneration packages and policies applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. Directors and executives' remuneration is arrived at after consideration of the level of expertise each director and executive brings to the Company, the time and commitment required to efficiently and effectively perform the required tasks and after reference to payments made to directors and executives in similar positions in other companies.

Service Agreements

No directors were appointed on service agreements during the year in their capacity as directors.

By consultancy agreement effective 21 December 2005, the Company engaged FJH Solutions of which Sean Henbury is a director, to support the Company's secretarial and accounting functions. This agreement was ended on 31 May 2007.

Directors' Report

Remuneration Report (continued)

Details of remuneration (audited)

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of the Environmental Clean Technologies Ltd and the Environmental Clean Technologies Ltd Group are set out in the following tables.

The key management personnel and specified executives of both Environmental Clean Technologies Ltd and the Environmental Clean Technologies Group are the directors as listed on page 1 and the following additional personnel:

R C Johnson – Director APCS
D Mills – Chief Executive Office from 1 July 2006 to 14 May 2007.
S Henbury – Company Secretary from 1 July 2006 to 31 May 2007.

	Short-term benefits			Post-employment benefits		Share-based payment	
	Cash Salary & fees $	**Consulting fees $**	**Non-monetary benefits $**	**Super-annuation $**	**Accrued termination benefit $**	**Options $**	**Total $**
2007							
Directors							
C Galtos (14/05/07 – 30/6/07)	-	94,035	-	-	-	-	94,035
M d'Almeida	24,000	149,974	-	-	-	-	173,974
J McMullan	-	-	-	-	-	-	-
T Gates (26/10/06 – 29/06/07)	22,045	10,000	-	-	-	-	32,045
S Fraval	22,000	68,000	-	-	-	-	90,000
G Fendis	10,000	**-**	**-**	**-**	**-**	**-**	10,000
J Hutchinson (29/06/07-30/06/07)	-	-	-	-	-	-	-
R C Johnson	-	-	-	-	-	-	-
Specified executives							
D Mills	-	83,750	-	-	25,000	-	108,750
S Henbury	-	108,819	-	-	-	-	108,819
Total	**78,045**	**514,578**	**-**	**-**	**25,000**	**-**	**617,623**

Directors' Report

Remuneration Report (continued)

Details of remuneration (audited)

	Short-term benefits			Post-employment benefits		Share-based payment	
	Cash Salary & fees $	Consulting fees $	Non-monetary benefits $	Super-annuation $	Accrued termination benefit $	Options $	Total $
2006							
Directors							
T E O'Conner QC	-	-	-	-	-	-	-
D P Glennon	-	-	-	-	-	-	-
D H O'Niell	-	-	-	-	-	-	-
J B H Cheak	-	-	-	-	-	-	-
S Fraval	12,000	75,000	-	-	-	6,000	93,000
G Fendis	12,000	75,000	-	-	-	6,000	93,000
Specified executives							
M d'Almeida	2,000	12,500	**-**	**-**	**-**	**-**	14,500
F Ismail	11,500	71,500	-	-	-	6,000	89,000
J McMullan	-	-	-	-	-	-	-
S Henbury	-	33,926	-	-	-	-	33,926
Total	**37,500**	**267,926**	**-**	**-**	**-**	**18,000**	**323,426**

Accrued Termination Benefit

Following the resignation of D Mills as Chief Executive Office on 14 May 2007 the board agreed the following termination settlement:

- One off payment of two months consultancy fees, amounting to $25,000 plus GST.
- Issue of 1,500,000 unlisted options in the company exercisable at $0.25 per share to be held in voluntary escrow for one year from resignation, and then exercisable for a further 3 year.

The option issue is still subject to shareholder approval and therefore have not been treated as issued yet within these accounts.

Share-based Compensation (audited)

The company has not issued an options in relation to Employee Option Plans or in lieu of services during the year.

Share Options (unaudited)

At the date of this report, the following options to acquire Ordinary shares of the company were on issue:

	Number	Exercise Price	Expiry Date
Unlisted ordinary options	11,192,857	$0.01	01/11/2008

Additional information (unaudited)

Relationship between remuneration and company performance

No remuneration during the year has been linked to company performance.

Directors' Report

Insurance of Officers

The Company has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the company or a Related body Corporatate, indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer or auditor, including costs and expenses in successfully defending legal proceedings.

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 company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001.*

Auditor's other services

No other services were provided by PKF during the year.

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 11.

Signed at Melbourne this 28 day of September 2007, in accordance with a resolution of the directors.

J McMullan
Director

M d'Almeida
Director

Auditor's Independence Declaration

Corporate Governance Statement

The Environmental Clean Technologies Limited (ESI) Board is committed to protecting shareholders' interests and keeping investors fully informed about the performance of the Company's businesses.

The Directors have undertaken to perform their duties with honesty, integrity, care and diligence, according to the law and in a manner that reflects the highest standards of governance.

Responsibilities of the Board include:

- appointment of the Managing Director;
- assessment of ESI's management performance, measured against clearly identified objectives;
- preservation of the integrity and credibility of ESI's businesses;
- prudent management of shareholders' funds;
- evaluation of opportunities for value-creating growth;
- involvement in the planning and review of the Company's strategic direction;
- approval of short and long term business plans;
- ensuring that there are effective environmental, health and safety procedures in place; and
- approval of accounts.

The Managing Director is responsible to the Board for the day-to-day management of the Company. The relationship between the Board and management is a partnership that is crucial to the Company's long term success. The separation of responsibilities between the Board and management is clearly understood and respected.

This statement outlines the principal corporate governance practices followed throughout the financial year.

Shareholders

The shareholders of the Company elect Directors at the Annual General Meeting in accordance with the Constitution. All Directors, apart from the Managing Director, are subject to re-election by rotation within three years.

The Annual General meetings are held in Melbourne. Shareholders have the opportunity to express their views, ask questions about Company business and vote on other items of business for resolution by shareholders at the Annual General Meeting.

Communication with Shareholders

ESI is committed to complying with the continuous disclosure obligations of the Corporations Act and the Australian Stock Exchange Listing Rules.

ESI keeps the market informed through the annual report, half yearly report, quarterly releases and by disclosing material developments to the Australian Stock Exchange (ASX) and the media as they occur.

From time to time, briefings and site visits are arranged to give those who advise shareholders a better understanding of the Company's operating facilities. In conducting briefings, ESI takes care to ensure that any price sensitive information released is made available to all shareholders (institutional and private) and the market at the same time. These announcements are lodged with the ASX and then posted on the Company's website at www.ectltd.com.au . This information is also released by email to all persons who have requested their name be added to the company's database.

Composition of the Board

The composition of the Board is reviewed on an annual basis to ensure that the Board has the appropriate mix of expertise and experience.

Corporate Governance Statement

Composition of the Board (cont.)

The Board currently comprises an independent non-executive Chairman, an executive Managing Director and two additional independent non-executive Directors.

Independent Directors have no relationship with management or the Company that would interfere with the exercise of their independent judgment and are free from any interest and any business or other relationship which could materially interfere with their ability to act in the best interests of the Company.

The Board as currently constituted has the range of skills, knowledge and experience necessary to govern the Company and understand the economic sectors in which the Company operates.

Board Committees

To assist in the execution of its responsibilities, the Board established two committees comprised wholly of non-executive Directors. These committees were formed after the end of the financial year.

The office of the Company Secretary provides secretariat services for each of the Committees. Regular reports of the committees' activities are given to the Board and minutes are circulated to all Directors.

Audit Committee

The responsibilities of the Audit Committee include assisting the Board to fulfill its fiduciary responsibilities by:

- considering the effectiveness of the accounting and internal control systems and management reporting, which are designed to safeguard company assets;
- serving as an independent and objective party to review the financial information;
- reviewing the accounting policies adopted within the Group;
- reviewing the quality of the internal and external audit functions; and
- reviewing and approving internal audit plans including identified risk areas.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee recommends appropriate remuneration packages for senior executives and Directors and advises the Board on the appointment and retirement of Directors. The Committee's responsibilities include:

- reviewing the appropriateness of the size and composition of the Board and the criteria for Board membership;
- ensuring that a proper succession plan is in place and nominating a panel of candidates with appropriate expertise and experience for consideration by the Board. The services of an independent external consultant may be sought in this process if deemed appropriate;
- reviewing remuneration arrangements for the Managing Director and his direct reports; and
- reviewing the remuneration of the non-executive members of the Board.

Independent Professional Advice

All Directors have the right of access to relevant Company information and the Company's executives and, subject to prior consultation with the Chairman, may, at the Company's expense, seek independent professional advice regarding their responsibilities.

Corporate Governance Statement

Board Committees (cont.)

Internal Controls and Management of Risks

The management of risk is important in the creation of shareholder value and is a high priority for the Board and management.

The Company has a framework in place to safeguard the Company's assets and interests and ensure that business risks are identified and properly managed. This includes procedures and limits to manage financial risk associated with exposures to foreign currencies and financial instruments. To assist in discharging this responsibility the Board has in place a control framework which includes the following:

- a comprehensive annual business plan, approved by the Directors, incorporating financial and non-financial key performance indicators;
- regular reporting to the Board on a number of key areas including safety, health, environment, insurance and legal matters;
- adoption of clearly defined guidelines for capital expenditure including annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested; and
- a comprehensive insurance program, including risk assessment surveys and plans to mitigate risks.

Ethical Standards

The Company is in the process of developing a Code of Conduct for management and staff which establishes procedures and guidelines to ensure that the highest ethical standards, corporate behaviour and accountability are maintained.

Directors' Share Dealings

The Board is in the process of developing a Code of Conduct for Directors which establishes guidelines for their conduct in matters such as ethical standards and conflicts of interests. The Code is to be based on that developed by the Australian Institute of Company Directors.

The Directors' Code of Conduct will include the following:

- Directors must consult with the Chairman of the Board, or in his absence, the Managing Director, before dealing in shares or other securities of the Company
- dealings (whether purchases or sales) in the Company's shares or other securities by related persons may not be carried out other than the period commencing two days and ending 30 days following the date of announcement of the Company's annual or half yearly results or a major announcement leading, in the opinion of the Board, to a fully informed market.

Directors are prohibited from buying or selling ESI shares at any time if they are aware of price sensitive information that has not been made public. In accordance with the Corporations Act and the Listing Rules of the Australian Stock Exchange, Directors advise the Company of any transactions conducted by them in shares in the Company, which then informs the ASX of the details of the transaction.

Corporate Governance and Board Practices

The Environmental Clean Technology Board aims for best practice in the area of corporate governance. The Chairman, the Directors and the Company Secretary are responsible for ensuring that the company complies with best practice in its corporate governance on a day to day basis.

Corporate Governance Statement

Corporate Governance and Board Practices (cont.)

Our main corporate governance and Board practices in place during fiscal year 2007 are described in this section and reported against ASX Corporate Governance Council's (the Council) 'Principles of Good Corporate Governance and Best Practice Recommendations and, where appropriate, elsewhere in our annual report. Further information regarding our corporate governance and Board practices can be found at our website, www.cleancoal.com.au.

ESI complies with the ASX Corporate Governance Council's (the Council) 'Principles of Good Corporate Governance and Best Practice Recommendations' released in March 2003 except where it states otherwise. These provisions require listed companies to report on their main corporate governance practices and require a company to highlight any areas of departure from the Recommendations of the Council and explain that departure.

Principle 1
Lay solid foundations for management and oversight.
Recommendation 1.1
Formalise and disclose the functions reserved to the Board and those delegated to management.

> The Board defines the strategic goals and objectives of the Company and the Board has delegated to the Managing Director responsibility for the management of the day-to-day operations and administration of the Company, consistent with the objectives and policies set down by the Board. The Managing Director is directly accountable to the Board for the performance of the management team.

Principle 2
Structure the Board to add value.
Recommendation 2.1
A majority of the Board should be independent directors.

The ESI Board has three non-executive directors following the appointment of Managing Director Mr Con Galtos and the stepping back of the previous Executive Chairman into a non-executive role.

Recommendation 2.2
The chairperson should be an independent director.

Mr Murray D'Almeida who is now a non-executive director is the Chairman of the ECT Board.

Recommendation 2.4
The Board should establish a Nomination Committee.

The Board currently comprises a non-executive Chairman (Murray d'Almeida), a Managing Director (Con Galtos) and two further independent Non-Executive Directors, John McMullen and John Hutchinson. John McMullen is responsible for the legal advice for the company. All directors other than John Hutchinson provide consulting or other professional services to the Company.

The Board's present policy, taking into account the size of the Company, its operations and immediate history, is that the Board should possess an appropriate mix of relevant industry skills, perspective and/or other business experience. The evaluation of the skills of the Board is an ongoing exercise. The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of this Annual Report are set out in the Directors' Report.

Where a vacancy arises or it is considered appropriate to increase or decrease the size of the Board, the whole of the boards assumes the responsibility as the Remuneration and Nomination Committee and proposes nominations at the first instance. All such nominations are reviewed by the full Board.

Corporate Governance Statement

Corporate Governance and Board Practices (cont.)

The Directors' terms of appointment are governed by the Constitution of the Company. A Director appointed to fill a casual vacancy, or as an addition to the Board, only holds office until the next general meeting of members and must then retire. After providing for the foregoing, one-third of the remaining Directors (excluding an appointed Managing Director) must retire at each Annual General Meeting of members. All Directors of the Company have direct access to the management of the Company and, where necessary, to external advisers.

Principle 3
Promote ethical and responsible decision-making.
Recommendation 3.1
Establish a code of conduct to guide the Directors, the Managing Director, the Chief Executive Officer and any other key executives as to:

3.1.1 the practices necessary to maintain confidence in the Company's integrity; and
3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company has a range of policies to deal with the issues the Board considers most relevant and a process for continual review. Other policies are being developed.

Recommendation 3.2
Disclose the policy concerning trading in Company securities by directors, officers and employees.

The Company's Share Trading Policy, once formalised as part of the Code of Conduct, will be posted on the Company's website in the Governance section.

Principle 4
Safeguard integrity in financial reporting.

Recommendation 4.1
Require the Chief Executive Officer and the Chief Financial Officer to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

Action by memorandum by the Managing Director and a director as CFO completed as confirmed by the Minute of 27 September 2007.

Recommendation 4.2
The Board should establish an Audit Committee.

ESI established an Audit Committee after the end of the financial year. The Audit Committee is chaired by Mr John Hutchinson.

Principle 5
Make timely and balanced disclosure.

Recommendation 5.1
Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

The Company's ASX Disclosure Compliance Policies and Procedures, as approved by the Board, will be available on the Company's website in the Governance section once they are formalised.

Corporate Governance Statement

Corporate Governance and Board Practices (cont.)

Principle 6
Respect the rights of shareholders.
Recommendation 6.1
Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

> Information is communicated to the members through compliance with ASX Listing Rules and the Corporations Act 2001, by way of the Annual Report, Half-Yearly Report, the Annual General Meeting and other meetings that may be called to obtain approval for Board recommendations.

Recommendation 6.2
Request the external auditor to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

> The external auditor is, under amendments to the Corporations Act 2001, required to attend the Company's AGM and answer questions on the conduct of the audit, the preparation and content of the auditor's report, the Company's accounting policies for preparing the financial statements and the auditor's independence.

Principle 7
Recognise and manage risk.
Recommendation 7.1
The Board or relevant Board Committee should establish policies on risk oversight and management.

> As outlined above, the Directors continually monitor areas of significant business risk, recognising that there are inherent risks associated with the provision of goods and services relating to the Resource Technology industry. Specifically, in relation to risk oversight, the Board is conscious of its responsibilities to: ensure compliance in legal, statutory and ethical matters; monitor the business environment; identify business opportunities; and monitor the systems established to ensure proper and appropriate responses to member complaints and enquiries.

Recommendation 7.2
The Chief Executive Officer and the Chief Financial Officer should state to the Board in writing that:
7.2.1 the statement given in accordance with best practice Recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies of the Board.
7.2.2 the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

> Action by memorandum by the Chairman and the Managing Director completed as confirmed by the Minutes of 27th September 2007

Principle 8
Encourage enhanced performance.
Recommendation 8.1
Disclose the process for performance evaluation of the Board, its Committees and individual directors, and key executives.

The Chairman of the Board and the other directors will undertake peer review in addition to assessment based on attendance at meetings, objectivity and participation and contribution to discussions and decisions. In addition to this review, during the 2007/08 fiscal year, an ongoing review of Board and Committee policy and practice will be conducted.

Corporate Governance Statement

Corporate Governance and Board Practices (cont.)

Principle 9
Remunerate fairly and responsibly.
Recommendation 9.1
Provide disclosure in relation to the Company's remuneration policies to enable investors to understand:

(i) the costs and benefits of those policies; and
(ii) the link between remuneration paid to directors and key executives and corporate performance.

> The Company is required under the Corporations Act 2001 to provide a remuneration report to shareholders detailing the Company's remuneration policies and to seek a non-binding resolution on the report at the Company's Annual General Meeting.

Recommendation 9.2
The Board should establish a Remuneration Committee.

A Remuneration and Nomination Committee, chaired by Mr John McMullan, was established after the end of the financial year.

Recommendation 9.3
Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

Each non-Executive Director has entered into a director's agreement. The Managing Director has a separate agreement and is remunerated in accordance with that agreement.

Principle 10
Recognise the legitimate interests of stakeholders.
Recommendation 10.1
Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

> The Company has a range of policies to deal with the issues the Board considers most relevant and a process for continual review.

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Income Statements
For the year ended 30 June 2007

	Notes	CONSOLIDATED 2007 $	CONSOLIDATED 2006 $	COMPANY 2007 $	COMPANY 2006 $
Revenue	4	306,819	19,000	306,819	142,000
EXPENSES					
Material and subcontractor expenses		(937,634)	-	(937,634)	-
Employee benefits expense		(173,653)	(75,000)	(173,653)	(57,000)
Depreciation and amortisation		(1,488)	(6,000)	-	-
Occupancy expense		(151,466)	(94,000)	(151,466)	
Patent fees		(57,252)	(84,000)	-	(64,000)
Corporate costs		(599,461)	(144,000)	(599,461)	(249,000)
Consultancy fees		(1,059,884)	(1,106,000)	(1,059,884)	(290,000)
Travel and accommodation		(107,175)	(183,000)	(107,175)	(59,000)
Insurance expense		(98,521)	(16,000)	(98,521)	-
Costs resulting from going into administration and write offs to recoverable amount		-	-	-	(220,000)
Finance costs		(83,402)	-	(83,402)	-
Impairment of non-current assets	3	-	-	(238,822)	(1,959,000)
Impairment of intangibles assets	3	-	(22,015,000)	-	-
Other expenses from ordinary activities		(443,876)	(116,000)	(443,876)	(21,000)
Loss before income tax	5	**(3,406,993)**	**(23,820,000)**	**(3,587,075)**	**(2,777,000)**
Income tax (expense)/benefit relating to ordinary activities	6	-	-	-	-
Net loss attributable to the members of Environmental Clean Technologies Limited		**(3,406,993)**	**(23,820,000)**	**(3,587,075)**	**(2,777,000)**

		2007 Cents	2006 Cents
Earnings per security (EPS) from loss from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings per share	18	(1.36)	(17.57)
Diluted earnings per share	18	N/a	N/a

The above Income Statements should be read in conjunction with the accompanying notes.

Balance Sheets
As at 30 June 2007

		CONSOLIDATED		COMPANY	
		2007	**2006**	**2007**	**2006**
	Notes	**$**	**$**	**$**	**$**
CURRENT ASSETS					
Cash and cash equivalents	7	44,769	218,000	27,058	217,000
Trade and Other Receivables	8	127,459	140,430	127,458	43,824
Other	9	-	34,000	-	-
Total Current Assets		172,228	392,430	154,516	260,824
NON-CURRENT ASSETS					
Other financial assets	12	-	-	-	-
Property, plant and equipment	10	644,492	15,000	630,516	-
Total Non-Current Assets		**644,492**	**15,000**	**630,516**	**-**
Total Assets		**816,720**	**407,430**	**785,032**	**260,824**
CURRENT LIABILITIES					
Payables	13	965,230	330,000	965,230	35,000
Interest bearing liabilities	14	778,000	-	778,000	-
Total Current Liabilities		1,743,230	330,000	1,743,230	35,000
NON-CURRENT LIABILITIES					
Interest bearing liabilities	15	1,233,054	-	1,233,054	-
Total Non-Current Liabilities		**1,233,054**	**-**	**1,233,054**	**-**
Total Liabilities		**2,976,284**	**330,000**	**2,976,284**	**35,000**
NET ASSETS		**(2,159,564)**	**77,430**	**(2,191,252)**	**225,824**
EQUITY					
Contributed equity	16	24,411,300	23,991,150	27,703,226	27,283,076
Reserves	17	779,849	30,000	779,849	30,000
Retained losses	17	(27,350,713)	(23,943,720)	(30,674,327)	(27,087,252)
TOTAL EQUITY		**(2,159,564)**	**77,430**	**(2,191,252)**	**225,824**

The above Balance Sheets should be read in conjunction with the accompanying notes.

Statements of Changes in Equity
For the Year Ended 30 June 2007

	CONSOLIDATED		COMPANY	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Total equity at the beginning of the financial year	**77,430**	**88,430**	**225,824**	**(1,057,176)**
Issue of shares by APCS	-	1,229,000	-	-
Capital adjustment for reverse acquisition accounting	-	22,550,000	-	-
Fair value recognised of share options issued during the year	-	30,000	-	30,000
Equity component of convertible notes issued during the year	767,849	-	767,849	-
Issue of shares by the Group	402,150	-	402,150	4,030,000
Net income recognised directly in equity	**1,169,999**	**23,809,000**	**1,169,999**	**4,060,000**
Loss for the year	(3,406,993)	(23,820,000)	(3,587,075)	(2,777,000)
Total recognised income and expense for the year	**(3,406,993)**	**(23,820,000)**	**(3,587,075)**	**(2,777,000)**
Total equity at the end of the financial year attributable to members of the Company	**(2,159,564)**	**77,430**	**(2,191,252)**	**225,824**

The above statements of changes in equity should be read in conjunction with the accompanying notes

Cash Flow Statements
For the year ended 30 June 2007

		CONSOLIDATED		COMPANY	
		2007	**2006**	**2007**	**2006**
	Notes	**$**	**$**	**$**	**$**
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of goods and services tax)		139,708	-	139,708	-
Payments to trade creditors, other creditors and employees (inclusive of goods and services tax)		(3,076,999)	(1,682,000)	(2,858,352)	(948,000)
Interest paid		(95)	-	(95)	-
Interest received		4,985	3,000	4,985	17,000
Grants received		213,000	-	213,000	-
Net cash outflows from operating activities	24	**(2,719,401)**	**(1,679,000)**	**(2,500,754)**	**(931,000)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(633,980)	(21,000)	(630,516)	-
Net cash outflows from investing activities		**(633,980)**	**(21,000)**	**(630,516)**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issuing convertible notes		2,000,000	-	2,000,000	-
Loans to subsidiary		-	-	(238,822)	(359,000)
Opening cash overdraft forgiven		-	-	-	118,000
Proceeds from/(Repayments of) borrowings		778,000	-	778,000	(922,000)
Proceeds from issuing of shares		402,150	1,870,000	402,150	2,429,000
Net cash inflows from financing activities		**3,180,150**	**1,870,000**	**2,941,328**	**1,266,000**
Net increase/(decrease) in cash held		(173,231)	170,000	(189,942)	335,000
Cash at the beginning of the financial year		218,000	48,000	217,000	(118,000)
CASH AT THE END OF THE FINANCIAL YEAR	7	**44,769**	**218,000**	**27,058**	**217,000**

The above Cash Flow Statements should be read in conjunction with the accompanying notes.

Notes to the financial statements

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Environmental Clean Technologies Limited as an individual entity and the consolidated entity of consisting of Environmental Clean Technologies Limited and its controlled entities.

These accounts were approved by the board of directors on 28 September 2007 and only therefore only include information up until this date.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and the *Corporations Act 2001.*

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and liabilities (including derivative instruments).

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

(b) Principles of Consolidation

Subsidiaries

The consolidated financial statements comprise those of the Company, and the entities it controlled at the end of, or during, the financial year. The company and it's controlled entities together are referred to in this financial report as the consolidated entity.

The balances and effects of transactions between entities in the consolidated entity included in the financial statements have been eliminated. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased. The accounting policies adopted in preparing the financial statements have been consistently applied by entities in the consolidated entity.

The acquisition of Asia Pacific Coal & Steel Pty Limited ("APCS") on 25 May 2006 was treated as a reverse acquisition in accordance with AASB 3 – Business Combinations whereby APCS is considered the accounting acquirer on the basis that APCS is the controlling entity in the transaction. As a result, APCS is the continuing entity for consolidated accounting purposes and the legal parent Environmental Clean Technologies Ltd is the accounting subsidiary.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Environmental Clean Technologies Limited.

Notes to the financial statements

1. Summary of Significant Accounting Policies (cont)

(c) Going concern

For the year ended 30 June 2007 the consolidated entity had a negative net asset position of \$2,159,564, a loss of \$3,406,993, and a negative cash flow from operating activities of \$2,719,401. Furthermore, the consolidated entity does not have a source of income and is reliant on equity capital or loans from third parties to meet its operating costs.

The financial statements have been prepared on the basis that the consolidated entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and the settlement of liabilities in the normal course of business. The directors remain confident that the company can continue as a going concern. The company has achieved the following milestones, and sourced further funding as follows:

(i) Costs associated with the Coldry Process plant in Bacchus Marsh, Victoria will reduce as the Company has completed its 60-day 24/5 production trial and has launched its "Go to Market Strategy"; and
(ii) Raised \$2.5 million by way of issue of equity; and
(iii) The placement of \$2.5 million noted above was on the basis that additional options would be issued on a 2:1 basis at an exercise price of 12 cents expiring on 5 October 2010. The issue of these options is subject to the approval of members at a general meeting on the 10th October, 2007
(iv) Executed a \$15 million equity line of credit facility for three years with Fortrend Securities Pty Ltd.
(v) Cash flows prepared by management demonstrate that the Company has sufficient cash flows to meet its commitments over the next twelve months.

Based on the above capital raising activities, the directors are of the opinion that the basis upon which the financial statements are prepared is appropriate in the circumstances.

(d) Foreign Currency Translation

Functional and presentation 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 consolidated financial statements are presented in Australian dollars, which is Environmental Clean Technologies Limited's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transaction at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

(e) Government grants

Grants from the Government are recognised as income where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

(f) Cash and cash equivalents

For the purposes of the cash flow statement, cash includes deposits at call which are readily convertible to cash and are not subject to significant risk of changes in value, net of bank overdrafts.

Notes to the financial statements

1. Summary of Significant Accounting Policies (cont)

(g) Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation is calculated on a straight line basis for all plant and equipment, with the exception of plant under construction. Estimates of remaining useful lives are made on a regular basis. The useful lives of plant and equipment is currently assessed at 1 – 5 years.

(h) Trade and other receivables

Trade receivables are recognised initially at fair value and thereafter are measured at amortised cost, less an allowance for doubtful debts. They are non-derivative financial assets with fixed or determinable amounts not quoted in an active market.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the allowance is recognised in the income statement.

(i) Trade and Other Creditors

Trade accounts payable and other creditors represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

(j) Borrowings

Borrowings are initially recognised at fair value (less transaction costs) and subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the income statement over the period of the borrowing using the effective interest rate method.

(k) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred except where they are incurred in the construction of a qualifying asset in which case the borrowing costs are capitalised as part of the asset.

(l) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Notes to the financial statements

1. Summary of Significant Accounting Policies (cont)

(l) Income Tax (cont.)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(m) Employee Benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other creditors 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. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the current provision for employee benefits and is measured at the amount expected to be paid when the liabilities are settled. The liability for long service leave expected to be settled more than 12 months from the reporting date, is recognised in the non-current provision for employee benefits. It is accrued in respect of all employees at the present value of future amounts expected to be paid based on a projected weighted average increase in wage and salary rates over an average period of 12 years. Present values are calculated using a weighted average rate based on government guaranteed securities. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Superannuation

Contributions to the employee superannuation plan are charged as expenses as the contributions are paid or become payable.

(n) Leased Assets

Leases of assets under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases as distinct from operating leases under which the lessor effectively retains substantially all such risks and benefits. Property, plant and equipment acquired by finance leases is capitalised at the present value of the minimum lease payments as a finance lease asset and as a corresponding lease liability from date of inception of the lease. Lease assets are amortised over the period the entity is expected to benefit from the use of the assets or the term of the lease whichever is shorter. Finance lease liabilities are reduced by the component of principal repaid. Lease payments are allocated between the principal component of the liability and interest expense.

Other operating lease payments are charged to the income statement in the period in which they are incurred.

Notes to the financial statements

1. Summary of Significant Accounting Policies (cont)

(n) Leased Assets (cont)

Assets sold as sales-type finance leases are brought to account at the beginning of the lease as a receivable, being the present value of the minimum lease payments and any unguaranteed residual value. The fair value of the leased asset is recognised as revenue, and its carrying amount at the inception of the lease is recognised as the cost of sales to arrive at gross profit.

Operating lease revenues are recognised in the financial statements in the period in which they are receivable.

(o) Revenue Recognition

Revenue is recognised for the major business activities as follows:

Rendering of Services

Revenue from a contract to provide design and engineering services is recognised by reference to the stage of completion of the contract.

Revenue from sub leases

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset

Interest Revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(p) Acquisition of Assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the date of acquisition, unless the notional price at which they could be placed in the market is a better indicator of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Any deferred settlement of cash consideration is discounted to its present value as at the date of acquisition. The discount rate used is the incremental borrowing rate that the Company can obtain from an independent financier under comparable terms and conditions.

Provisions for restructuring costs and related employee termination benefits are recognised as at the date of acquisition of an entity or part thereof when there is a demonstrable commitment to the restructuring as at the acquisition date and the amount can be reliably estimated.

(q) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net indentifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. An impairment loss in respect to goodwill cannot be reversed.

Notes to the financial statements

1. Summary of Significant Accounting Policies (cont)

(r) Earnings Per Share

(i) Basic Earnings Per Share

Basic earnings per share for continuing operations and total operations attributable to members of the Company are determined by dividing net profit after income tax from continuing operations and the net profit attributable to members of the Company respectively, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period. The number of shares used in the calculation at any time during the period is based on the physical number of shares issued.

(ii) Diluted Earnings Per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(s) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(t) Research and development expenditure

Expenditure on of research and development is charged to the income statement as incurred.

(u) Impairment of Assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable but at least annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The 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 which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

(v) Rounding

The Group no longer qualifies under ASIC Class order 98/100 to be able to round amounts stated in the financial statements to the nearest thousand dollars. Therefore, amounts for the year ended 30 June 2007 are now stated to the nearest dollar.

(w) New standards and interpretations issued but not yet effective

At the date of this financial report AASB 7, AASB 8, AASB 2005-10, AASB 101, AASB 123, AASB 2007-4, AASB 2007-7, Interpretation 12, Interpretation 13, AASB 2007-3 and AASB 2007-2 which may impact the entity in the period of initial application, have been issued but are not yet effective. These new standards and interpretations have not been applied in the preparation of this financial report. Other than changes to disclosure formats, it is not expected that the initial application of these new standards and interpretations in the future will have any material impact.

Notes to the financial statements

2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(i) Estimated impairment of goodwill and non current assets

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. As disclosed in notes 11 and 12 the directors have assessed that intangible assets and non current assets have no recoverable value and these assets have been fully impaired.

(ii) Fair value estimate of debt and equity portions of Convertible notes

AASB 139 – Financial Instruments: Recognition and Measurement requires that convertible notes require separate accounting of the fair value of the debt and equity portions of the financial instruments. The fair value of the debt portion of the financial instrument is calculated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar pure debt financial instruments. The Group has therefore been required to make assumptions regarding the relevant current market interest rate that is available to the Group. Refer to note 15 for details of these assumptions.

3. Prior period adjustment

In accordance with AASB 136 “Impairment of Assets” the financial report for the year ended 30 June 2007 recognises an error to the 30 June 2006 balance sheet comparatives.

Consolidated

The carrying value of intangibles of $16,387,629 and the associated deferred tax liability $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”, the consolidated entity has corrected the prior period error retrospectively by restating the balance sheet and comparatives amounts for the prior year. The effect of this error at 30 June 2006 is a write down of intangible assets by $16,387,629, deferred tax liabilities by $4,916,289 and an increase in retained losses by $11,471,629.

Parent

The carrying value of investments in and loans to the Company’s subsidiary, Asia Pacific Coal and Steel Ltd of $1,959,000 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”, the Company has corrected the prior period error retrospectively by restating the balance sheet and comparatives amounts for the prior year. The effect of this error at 30 June 2006 is a write down of non current assets by $1,959,000, and an increase in retained losses by $1,959,000.

Notes to the financial statements

	CONSOLIDATED 2007 $	CONSOLIDATED 2006 $	COMPANY 2007 $	COMPANY 2006 $
4. Revenue				
Operating revenue				
Revenue from continuing operations:				
Grants received	213,000	-	213,000	-
Miscellaneous	50,833	-	50,833	-
Rental income from subleases	38,001	16,000	38,001	-
	301,834	16,000	301,834	-
Other revenue:				
Interest Received	4,985	3,000	4,985	17,000
Total operating revenue	306,819	19,000	306,819	17,000
Non Operating revenue				
Debts forgiven under DOCA	-	-	-	125,000
Total revenue	**306,819**	**19,000**	**306,819**	**142,000**

	CONSOLIDATED 2007 $	CONSOLIDATED 2006 $	COMPANY 2007 $	COMPANY 2006 $
5. Expenses				
Loss before income tax includes the following specific expenses:				
Impairment of non current assets	-	-	(238,822)	(1,959,000)
Impairment of intangible assets	-	(22,015,000)	-	-
Total Impairment loss	-	(22,015,000)	(238,822)	(1,959,000)
Depreciation				
Plant and equipment	(1,488)	(5,899)	-	-
Borrowing Costs				
Interest and finance charges paid/payable	(83,402)	-	(83,402)	-
Research & Development expenditure	(1,928,337)	-	(1,928,337)	-
Rental expense relating to operating leases				
Minimum lease payments	(151,465)	(53,000)	(151,465)	-

Notes to the financial statements

	CONSOLIDATED 2007 $	CONSOLIDATED 2006 $	COMPANY 2007 $	COMPANY 2006 $
6. Income Tax Expense				
(a) Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
	-	-	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Loss before income tax expense	**(3,406,993)**	**(23,820,000)**	**(3,587,075)**	**(2,777,000)**
Tax at the Australian tax rate of 30% (2006 – 30%)	(1,022,098)	(7,146,000)	(1,076,123)	(833,100)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Impairment if non current assets	-	-	71,647	587,700
Impairment of intangibles	-	6,604,500	-	-
Share-based payments	-	10,000	-	10,000
Deferred tax asset not recognised	1,022,098	531,500	1,004,476	235,400
Income tax expense	-	-	-	-
(c) Gross deferred tax assets not recognised				

Due to the changes in the group structure arising from the acquisition of Asia Pacific Coal & Steel Ltd in 2006, there is currently uncertainty as to the extent of tax losses currently available to be carried forward by the Group. Therefore the deferred tax assets not recognised cannot be quantified at this time.

Notes to the financial statements

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$	$	$	$
7. Current Assets – Cash and Cash Equivalents				
Cash at bank and on hand	44,769	218,000	27,058	217,000
8. Current Assets - Receivables				
Trade debtors	17,112	31,000	17,111	-
Goods and services tax (GST) receivable	110,347	109,430	110,347	43,824
	127,459	140,430	127,458	43,824
9. Current Assets - Other				
Deposits paid	-	32,000	-	-
Other	-	2,000	-	-
	-	34,000	-	-
10. Non-Current Assets - Property, Plant and Equipment				
Plant and equipment:				
Plant and equipment – at cost	651,879	20,899	630,516	-
Less: Accumulated depreciation	(7,387)	(5,899)	-	-
	644,492	15,000	630,516	-

Notes to the financial statements

10. Non-Current Assets - Property, Plant and Equipment (cont)

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

2007	Total $
CONSOLIDATED	
Carrying amount at 1 July 2006	15,000
Additions	630,980
Disposals	-
Depreciation/amortisation expense	(1,488)
Carrying amount at 30 June 2007	644,492
COMPANY	
Carrying amount at 1 July 2006	-
Additions	630,516
Disposals	-
Depreciation/amortisation expense	-
Carrying amount at 30 June 2007	630,516

2006	Total $
CONSOLIDATED	
Carrying amount at 1 July 2005	-
Additions	20,899
Disposals	-
Depreciation/amortisation expense	(5,899)
Carrying amount at 30 June 2006	15,000
COMPANY	
Carrying amount at 1 July 2005	-
Additions	-
Disposals	-
Depreciation/amortisation expense	-
Carrying amount at 30 June 2006	-

Notes to the financial statements

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$	$	$	$
11. Non Current Asset - Intangibles				
Balance at beginning of the financial year	-	-	-	-
Additions	-	22,015,000	-	-
Impairment write down	-	(22,015,000)	-	-
	-	-	-	-

The company has written down the carrying value of the Enersludge technology and Goodwill acquired in the previous year to $nil following an assessment by the directors of the recoverable value of these assets.

12. Non Current Asset - Other

Loans to wholly owned subsidiary	-	-	597,822	359,000
Shares in wholly-owned controlled entities, at cost	-	-	1,600,000	1,600,000
Impairment write down	-	-	(2,197,822)	(1,959,000)
	-	-	-	-

Following an assessment by the directors of the recoverable values of the loans to and shares in the wholly-owned subsidiary these assets have been written down to $nil.

13. Current Liabilities – Payables

Trade payables	702,992	308,000	702,992	25,000
Other payables	262,238	22,000	262,238	10,000
	965,230	330,000	965,230	35,000

14. Current Liabilities – Interest Bearing Liabilities

Loans - unsecured	778,000	-	778,000	-
	778,000	-	778,000	-

Notes to the financial statements

15. Non-Current Liabilities – Interest Bearing Liabilities

Convertible Note	1,233,054	-	1,233,054	-
	1,233,054	-	1,233,054	-

The debt portion of the convertible note has been calculated at its fair value in accordance with AASB 139 – Financial Instruments: Recognition and Measurement.

The convertible note issued on 27 June 2007 for $2,000,000 redeemable after 3 years, with contracted interest payable every six months at 7.5% per annum.

In calculating the fair value of the debt portion of the financial instrument, the directors have discounted the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments which the directors have assessed to be 28.75%

16. Contributed Equity

	CONSOLIDATED 2007 $	CONSOLIDATED 2006 $	COMPANY 2007 $	COMPANY 2006 $
Balance at beginning of financial year	23,991,150	212,150	27,283,076	23,253,076
Issue of shares by APCS	-	1,229,000	-	-
Capital adjustment for reverse acquisition	-	22,550,000	-	-
Issue of shares by the group	402,150	-	402,150	4,030,000
Transfer of fair value of options exercised from Options reserve	18,000	-	18,000	-
Balance at beginning of financial year	24,411,300	23,991,150	27,703,226	27,283,076

Reconciliation of Company share movements

	No of shares	$
Balance at 1 July 2005	**77,098,203**	**23,253,076**
Issue of shares	230,082,000	4,030,000
1:5 Consolidation of shares	(61,663,000)	-
Balance at 30 June 2006	**245,517,203**	**27,283,076**
Issue of shares – 9 September 2006	555,000	250,000
Exercise of options through year	15,215,000	170,150
Balance at 30 June 2007	**261,287,203**	**27,703,226**

Share options

At the date of this report, the following options to acquire Ordinary shares of the company were on issue:

	Number	Exercise Price	Expiry Date
Unlisted ordinary options	11,192,857	$0.01	01/11/2008

Notes to the financial statements

17. Reserves and Retained Losses

	CONSOLIDATED 2007 $	CONSOLIDATED 2006 $	COMPANY 2007 $	COMPANY 2006 $
Reserves				
Share option reserve	12,000	30,000	12,000	30,000
Convertible notes reserve	767,849	-	767,849	-
Total reserves	779,849	30,000	779,849	30,000
Movements in reserves were:				
Share option reserve				
Opening balance	30,000	-	30,000	-
Fair value of options issued during the year	-	30,000	-	30,000
Transfer of fair value of options exercised to contributed equity	(18,000)	-	(18,000)	-
Closing balance	12,000	30,000	12,000	30,000
Convertible note equity reserve				
Opening balance	-	-	-	-
Equity component of convertible notes issue	767,849	-	767,849	-
Closing balance	767,849	-	767,849	-
Accumulated Losses				
Accumulated losses at the beginning of the financial year	(23,943,720)	(123,720)	(27,087,252)	(24,310,252)
Net loss attributable to members of the Group	(3,406,993)	(23,820,000)	(3,587,075)	(2,777,000)
Accumulated losses at the end of the financial year	(27,350,713)	(23,943,720)	(30,674,327)	(27,087,252)

Notes to the financial statements

18. Earnings Per Share

	2007 Cents	2006 Cents
(a) Basic earnings per share		
Loss attributable to the ordinary equity holders of the Company	(1.36)	(17.57)
(b) Diluted earnings per share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	N/a	N/a
Profit from discontinued operations	N/a	N/a
Profit attributable to the ordinary equity holders of the Company	N/a	N/a

	2007 $000	2006 $000
(c) Reconciliation of earnings used in calculating earnings per share		
Loss attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(3,406,993)	(23,820,000)

	2007 Number	2006 Number
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	250,971,575	135,541,938

19. Controlled Entities

Name	Notes	**Country of Incorporation**	**Ordinary Share Consolidated Equity Interest 2007 %**	**2006 %**
Parent entity				
Environmental Clean Technologies Limited		Australia		
Controlled entities				
Asia Pacific Coal and Steel (i)		Australia	100%	100%
Enermode Pty Ltd (i)		Australia	100%	100%

(i) small proprietary company which in accordance with the Corporations Act 2001, is relieved from the requirement to prepare, audit and lodge financial statements.

Notes to the financial statements

20. Commitments and Contingent Liabilities

Participants agreement with Maddingley Associates

a) Capital Commitment

On 29th July 2005 Asia Pacific Coal and Steel Limited ("APCS") signed a participants agreement with Maddingley Associates with the objective for APCS to licence and commercialise the Coldry and Matmor technology owned by Maddingley Associates.

This agreement was then subject to a deed of variation following the acquisition of 100% of the equity of APCS by Environment Clean Technologies Limited ("ECT")on 25 May 2006.

As part of the participants agreement and deed of variation, APCS and ECT have committed to complete agreed milestones along an agreed critical path. The commitments which remain outstanding after the year end are as follows:

- 30 September 2007 – Confirmation from the technology consultant and the "Generator Partner" that the Coldry Demonstration Plant has been proved up and can be applied for commercial production;
- 1 October 2007 – Commence construction of 6000 tonne per annum Matmor Steel demonstration plant at JBD Park, Bacchus Marsh;
- 1 January 2008 – Commissioning of 6000 tonne per annum Matmor Steel demonstration plant at JBD Park, Bacchus Marsh;
- 30 January 2008 – Conclude negotiation for sites for the construction of additional Coldry plants in the Latrobe Valley, to meet additional opportunities for emissions reduction and commence construction of additional Coldry plants to service export market opportunities (goal 10 million tonnes per annum of production capacity by December 2010); and
- 30 July 2009 – Complete commissioning of one Export Plant.

In the opinion of the directors, the capital expenditure commitments arising from the above agreement cannot be accurately estimated, and therefore no value has not been included in the accounts.

b) Contingent liability

The Maddingley agreement and subsequent deed of variation states that should the agreement be terminated by any reason other than breach or default on the part of Maddingley Associates, then APCS will grant to Maddingley Coal an option to buy the following for $1:

- The benefits of all contracts, licences and sublicences entered into in relation to the Licenced Technology;
- All right, title and interest of APCS relating to the Licensed Technologyl
- All right, title and interest of APCS in any improvements at JBD Industrial Park including any modifications or upgrades to the Coldry Pilot Plant;
- All the leasehold or other interest of APCS to JBD Industrial Park or any part thereof.

As part of the fulfilment of the agreement is dependent on the completion of future events as above there is potentially a loss to the consolidated entity of $644,000 should it fail to meet the obligations and Maddingley exercise the option to purchase the Coldry Pilot Plant upgrades which at 30 June 2007 have a net book value of $644,000 for $1.

Notes to the financial statements

20. Commitments and Contingent Liabilities (cont.)

	CONSOLIDATED		COMPANY	
	2007	2006	**2007**	2006
	$	$	**$**	$
Lease Commitments - Property				
Future operating lease commitments not provided for in the financial statements and payable:				
Within one year	42,849	84,249	-	-
Later than one year but not later than five years	-	42,849	-	-
Later than five years	-	-	-	-
	42,849	127,098	-	-

21. Remuneration of Auditors

During the year the following fees were paid/payable to the auditor of the Company and its related practices:

Assurance services				
Audit Services				
Fees paid/payable	34,000	32,275	34,000	32,275
Other	-	-	-	-
	34,000	32,275	34,000	32,275

Notes to the financial statements

22. Key Management Personnel Disclosures

Directors

The following persons were directors of the Company during the financial year:

M d'Almeida - Chairman
C Galtos – Managing director (from 14 May 2007 to 30 June 2007)
J McMullan – Non executive director
T Gates - Executive director (from 26 October 2006 to 29 June 2007)
S Fraval – Executive director
G Fendis – Non-executive director (from 1 July 2006 to 17 December 2006)
J Hutchinson – Non-executive directo(from 29 June 2007 to 30 June 2007)

Other key management personnel

In addition, the following persons had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

R C Johnson – Director of APCS
D Mills – Chief Executive Office from 1 July 2006 to 14 May 2007.
S Henbury – Company Secretary from 1 July 2006 to 31 May 2007.

Key management personnel compensation

	CONSOLIDATED		COMPANY	
	2007 $	2006 $	2007 $	2006 $
Short-term employee benefits	592,623	305,426	592,623	305,426
Post-employment benefits	25,000	-	25,000	-
Long term benefits	-	-	-	-
Share-based payments	-	18,000	-	18,000
	617,623	323,426	617,623	323,426

The company has taken advantage of the relief provided by *Corporations Regulation* 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 7 to 9.

Notes to the financial statements

22. Key Management Personnel Disclosures (cont.)

Other transactions with directors and other key management personnel

Directors of the Company

Aggregate amounts of each of the above types of other transactions with directors of the Company and their director-related entities were as follows:

	CONSOLIDATED		COMPANY	
	2007 $	2006 $	2007 $	2006 $
Amounts recognised as expenses				
Legal services – John McMullan & Assoc.	264,960	-	264,960	-

All legal services were charged on normal commercial terms and conditions.

Specified directors and specified executives equity holding:

Fully paid ordinary shares issued by Environmental Clean Technologies Limited

	Held at 1 July 2006 No.	Granted as compensation No.	Received on exercise of options No.	Other change No.	Held at 30 June 2007
C Galtos	-	-	-	-	-
M d'Almedia	-	-	-	-	-
J McMullan	-	-	-	-	-
T Gates	-	-	-	-	-
S Fraval	150,000	-	6,000,000	(6,150,000)	-
D Mills	-	-	-	-	-
G Fendis	-	-	-	-	-
S Henbury	-	-	-	-	-
J Hutchinson	-	-	-	1,844,519	1,844,519
R C Johnson	-	-	-	53,467,255	53,467,255

Ordinary options issued by Environmental Clean Technologies Limited

	Held at 1 July 2006 No.	Granted as compensation No.	Exercised No.	Other change No.	Held at 30 June 2007
C Galtos	-	-	-	-	-
M d'Almedia	-	-	-	-	-
J McMullan	-	-	-	-	-
T Gates	-	-	-	-	-
S Fraval	6,000,000	-	6,000,000	-	-
D Mills	-	-	-	-	-
G Fendis	6,000,000	-	-	(6,000,000)	-
S Henbury	-	-	-	-	-
J Hutchinson	-	-	-	-	-
R C Johnson	-	-	-	-	-

Notes to the financial statements

23. Related party transactions

(a) Parent entities

The legal and ultimate parent entity within the Group is Environmental Clean Technologies Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 19.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 22.

(d) Loans to/from related parties

The following loans occurred with related parties:

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$	$	$	$
Loans to subsidiaries				
Balance at beginning of the year	-	-	359,000	-
Loans advanced	-	-	238,822	359,000
Loan repayments received	-	-	-	-
Balance at end of the year	-	-	597,822	359,000

As disclosed in note 12 these loans have been fully impaired at 30 June 2007 and 2006 and an impairment loss of $238,822 (2006 - $359,000) has been recognised in the year in respect of these loans.

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$	$	$	$
Loans from R C Johnson				
Balance at beginning of the year	-	-	-	-
Loans advanced	-	-	778,000	-
Loan repayments received	-	-	-	-
Balance at end of the year	-	-	778,000	-

The above loan was repayable on demand and interest is payable on the outstanding balance at 10% per annum.

Notes to the financial statements

	CONSOLIDATED		COMPANY	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
24. Notes to the Cash Flow Statements				
Reconciliation of Net Cash Flows from Operating Activities to Net Profit from Ordinary Activities after Income Tax				
Operating loss after income tax	(3,406,993)	(23,820,000)	(3,587,075)	(2,777,000)
Debt forgiven under DOCA	-	-	-	(125,000)
Depreciation and amortisation	1,488	6,000	-	-
Impairment of non current assets	-	-	238,822	1,959,000
Impairment of intangible assets	-	22,015,000	-	-
Issue of share options	-	30,000	-	30,000
Changes in assets and liabilities (net of effects of acquisition and disposal of entities):				
(Increase)/decrease in trade and other debtors	49,971	(129,000)	(83,834)	(36,000)
Increase in trade and other payables	636,133	219,000	931,333	18,000
Net cash outflow from operating activities	(2,719,401)	(1,679,000)	(2,500,754)	(931,000)

25. Segment Information

The company operated within one business segment, being the research and development of dewatering and related technology, and in one geographic segment being Australia.

Notes to the financial statements

26. Financial Risk Management

Financial risk management

The Group's operations expose it to various financial risks including market, credit, liquidity and cash flow risks. Risk management programmes and policies are employed to mitigate the potential adverse effects of these exposures on the results of the Group.

Financial risk management is carried out by the Board Board-approved policies are provided to cover certain areas such as foreign exchange hedging, investment of surplus cash assets and borrowings.

Interest rate risk exposures

The Group's exposure to interest rate risk, and the effective weighted average interest rate for each class of financial assets and financial liabilities, is set out below.

				Fixed Interest Maturing in:				
2007	Notes	**Weighted Average Interest Rate**	**Floating Interest Rate $**	**1 Year or Less $**	**Over 1 to 5 Years $**	**More Than 5 Years $**	**Non-Interest Bearing $**	**Total $**
CONSOLIDATED								
Financial Assets								
Cash Assets	7		-	-	-	-	44,769	44,769
Receivables	8 & 9		-	-	-	-	127,459	127,459
Total Financial Assets			-	-	-	-	172,228	172,228
Financial Liabilities								
Trade and Other Creditors	13		-	-	-	-	(965,230)	(965,230)
Loans	14	10%	-	(778,000)	-	-	-	(778,000)
Convertible Note	15	7.5%	-	-	(1,233,054)	-	-	(1,233,054)
Total Financial Liabilities			-	(778,000)	(1,233,054)	-	(965,230)	(2,976,284)
Net Financial Assets / (Liabilities)			-	(778,000)	(1,233,054)	-	(793,002)	(2,804,056)

Notes to the financial statements

26. Financial Instruments (cont)

Interest Rate Risk Exposures (cont)

2006	Notes	Weighted Average Interest Rate	Floating Interest Rate $	Fixed Interest Maturing in: 1 Year or Less $	Over 1 to 5 Years $	More Than 5 Years $	Non-Interest Bearing $	Total $
CONSOLIDATED								
Financial Assets								
Cash Assets	7		-	-	-	-	218,000	218,000
Receivables	8 & 9		-	-	-	-	174,430	174,430
Total Financial Assets			-	-	-	-	392,430	392,430
Financial Liabilities								
Trade and Other Creditors	13		-	-	-	-	(330,000)	(330,000)
Total Financial Liabilities			-	-	-	-	(330,000)	(330,000)
Net Financial Assets / (Liabilities)			-	-	-	-	62,430	62,430

Reconciliation of Net Financial Assets to Net Assets

	CONSOLIDATED 2007 $	2006 $
Net Financial Assets as above	(2,804,056)	62,430
Non-financial assets and liabilities:		
Property, plant and equipment	644,492	15,000
Net (liabilities)/assets per Balance Sheet	**(2,159,564)**	**77,430**

Notes to the financial statements

26. Financial Instruments (cont)

Net Fair Value of Financial Assets and Liabilities

On-balance sheet

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

The carrying amounts of all financial assets and liabilities at balance date at the same as their net fair values:

Credit Risk Exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets, other than investments, of the consolidated entity which have been recognised in the Balance Sheet is the carrying amount net of any provision for doubtful debts.

27. Events Subsequent to Reporting Date

In August 2007 the consolidated entity raised capital of $2.5 million by way of equity issue.

On 5 September 2007 the consolidated entity executed a $15 million equity line of credit with Fortrend Securities.

On 13 September 2007 the company successfully completed the production trial run of the Coldry Process with the plant operating 24 hours per day, five days a week .

28. Variance between the Appendix 4E 'Preliminary Final Report' and the annual report

Losses in the annual report are approximately $89,000 greater the the Appendix 4E 'Preliminary Final Report' due to the recognition of additional accruals of $89,000 for invoices received subsequent to the year end relating to services provided prior to the year end.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 19 to 46 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 Company's and consolidated entity's financial position as at 30 June 2007 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

(b) 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

(c) the audited remuneration disclosures set out on pages 7 to 9 of the Directors' Report comply with Accounting Standard AASB 124 "Related Party Disclosures" and the Corporations Regulations 2001.

The directors have been given declarations, as required by section 295A of the Corporations Act 2001.

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

J McMullan
Director

M d'Almeida
Director

Melbourne

28 September 2007

Independent Audit Report to be provided. – Page 1

Auditors report – Page 2

CORPORATE DIRECTORY

Directors	M d'Almeida J McMullan C Galtos J Hutchinson
Secretary	J Macpherson
Principal registered office in Australia	Level 13 222 Kingsway South Melbourne Vic 3250
Share registers	Security Transfer Registrars Pty Ltd 770 Canning Highway, Applecross WA 6153
Auditors	PKF Chartered Accountants Level 14 140 William Street Melbourne Vic 3000
Accountants	RSM Bird Cameron Level 8, Rialto 525 Collins Street Melbourne Vic 3000
Solicitors	McMullan Solicitors Level 46 525 Collins Street Melbourne Vic 3000
Exchange listings	Environmental Clean Technologies Ltd's shares are listed on the Australian Stock Exchange. **www.asx.com.au** (ESI)
Website	www.ectltd.com.au

Shareholder Information

The shareholder information set out below was applicable as at 31 August 2007.

A. Distribution of equity securities

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

	Ordinary Shares
1 - 1000	612
1,001 – 5,000	889
5,001 – 10,000	394
10,001 – 100,000	970
100,001 and over	215
	3,080

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary Shares	
	Number held	Percentage of issued shares
ANZ Nominees Limited	52,479,492	21.28%
Paldar Nominees Pty Ltd	38,254,449	15.51%
R C Johnson Pty Ltd (#3 Account)	23,373,957	9.48%
Jackson Street Pty Ltd	21,995,000	8.92%
R C Johnson Pty Ltd	19,437,949	7.88%
Caracob Pty Ltd	18,455,933	7.49%
R C Johnson Pty Ltd	7,894,168	3.20%
D Wilson Investments Pty Ltd	5,951,731	2.43%
Paldar Nominees Pty Ltd	3,997,349	1.62%
R C Johnson Pty Ltd (#2 Account)	2,761,181	1.12%
Jogeanwatoo Pty Ltd	2,761,181	1.12%
Elberg Liliana	2,613,798	1.06%
MSV Energy Pty Ltd	2,407,531	0.98%
Neil O'Keefe	1,936,181	0.79%
C D Management Pty Ltd	1,863,632	0.76%
John Hutchinson	1,844,519	0.75%
David Giles	1,834,931	0.74%
Rhonda O'Keefe	1,594,519	0.65%
Colin Rawdon Macnamara	1,200,531	0.49%
Alan Moody	1,000,443	0.43%
	213,658,475	86.66%

Shareholder Information (cont.)

C. Substantial holders

Substantial holders in the company are set out below:

	Ordinary Shares	
	Number held	**Percentage of issued shares**
R C Johnson Pty Ltd	53,467,255	33.48%
ANZ Nominees Limited	52,479,492	21.28%
Paldar Nominees Pty Ltd	38,254,449	15.51%
Jackson Street Pty Ltd	21,995,000	8.92%
Caracob Pty Ltd	18,455,933	7.49%

D Voting rights

The voting rights attaching to each class of security are set out below.

Ordinary shares

On a show of hands, each member present in person and each other person present as a proxy of a member has one vote. On a poll each member present in person has one vote for each fully paid share held by the member and each person present as a proxy of a member has one vote for each fully paid share held by the member that the proxy represents.