ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED

ACN 009 120 405

Annual Report

30 June 2008

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ANNUAL REPORT

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Directors' Report

The Directors submit their report on the consolidated entity consisting of Environmental Clean Technologies Limited (the Company) and the entities it controlled for the year ended 30 June 2008. Environmental Clean Technologies Limited and its controlled entities together are referred to as Environmental Clean Technologies or the consolidated entity or ECT in this Financial Report.

Directors

Unless indicated otherwise, the following persons were Directors of Environmental Clean Technologies Limited during the whole or part of the financial year and until the date of this report:

Mr Dave Woodall MBA, Dip Mech Eng, FAICD, FAIM - Non Executive Chairman (appointed 22 April 2008)

Mr John Hutchinson OAM, RFD, ED, FIEAust, CPEng - Non-Executive Director

Dr Dennis Brockenshire OAM, DTech, MBA, BComm, Dip ElecEng, Dip MechEng, FAICD, FIE(Aust)
Non-Executive Director (appointed 2 May 2008)

Mr Con Galtos MBE FAICD Managing Director until 14 May 2008 then Non-Executive Director
Resigned 30 July 2008

Mr Murray d'Almeida Non-Executive Chairman
Resigned 22 April 2008

Mr John McMullan Non- Executive Director
Resigned 29 November 2007

Principal Activities

Coldry Process

Further testing of Coldry on a wide range of brown coal samples throughout the year continued to show ECT's unique, patented process is a commercially viable black coal substitute that can be utilised as a high quality feedstock for other processes, including urea, char, gasification, steel making and coal to oil.

Arup's pre-feasibility report showed advantages of Coldry process include:

1. A hard, dense, fuel product is manufactured from most types of raw brown coal with high initial water content without the need for expensive drying conditions at elevated or prolonged temperature; and
2. The Coldry pellet is suitable either as a briquette equivalent fuel or as feedstock for the manufacture of smokeless fuels, chars and activated carbons.

The results show the product retains the Volatile and Fixed Carbon values of the raw coal but possesses a Net Wet Specific Energy equivalent to that of black coal.

This densified coal, however, has an advantage over black coal in that the mineral content can be quite low (depending on the type of brown coal used in the process).

The benefits keep growing and, based on research undertaken by ECT, now include:

- A process that has been tested and proven successful on a wide range of brown coal samples;
- A more energy efficient process for removing water from brown coal than firing the coal in a boiler;
- Enhanced efficiency in the process of generating electricity through use of firing Coldry pellets;

- Changes in the coal result in a stable pellet that no longer adsorbs moisture, making it ideal for:
  - Export to the thermal coal market
  - Feedstock for coal-to-oil processes, replacing costly slurry drying
- Feedstock for urea, char and gasification processes

It is also pleasing for the company that existing power stations (brown and black coal) that consume Coldry pellets gain benefits without the need of significant modifications to plant infrastructure that include emissions savings, reduced ash costs and access to increased water supply.

New Power stations can also be built with confidence that they can secure supply of a 'New Cleaner Coal', based on abundant, under exploited, brown coal reserves, that performs well with the next generation gasification technologies.

The technology has been enhanced by the design of a 10,000 megalitre water recovery plant which will allow the water from Coldry to be economically transported to consumers within a relatively wide radius from the proposed production source.

Based on independent feasibility studying and modelling, the company's anticipated cost of production of Coldry pellets in a full scale Coldry plant is a highly commercial rate.

ECT continued to engage with numerous potential buyers of Coldry process and Coldry pellet around the world, with significant interest coming from India, Asia and the Middle East.

Matmor Process

Significant testing of the Matmor process was undertaken throughout the year, which culminated in a number of successful continuous pours.

In April, a 55 minute continuous pour using 13mm Coldry pellets with high iron content clearly showed evidence that Matmor has production viability.

The testing has instilled significant confidence around the commercial viability of the technology and ECT will now look to engage a suitable partner to prepare a preliminary design and feasibility study for a pilot plant.

ECT's Matmor process produces clean low carbon iron in a single step by blending wet brown coal (lignite) with low quality iron ore to form a paste which is dewatered using the Coldry process.

The pellets are then fed into a simple low cost, low emission patented retort where the remaining moisture is removed, the coal volatiles are driven off and the iron oxides are reduced to metal.

Intellectual Property

ECT has entered into a Letter of Intent with the Calleja Group, owners of the Coldry and Matmor technologies, for the acquisition of the intellectual property of the Coldry process. ECT has an exclusive right under a Participation Agreement with the technology owners to licence the Coldry and Matmor processes and under the terms of the Letter of Intent will purchase the intellectual property in the Coldry process.

ECT believes that the acquisition of the intellectual property is strategic to the company's future interests.

Upon certain conditions being met, ECT will to purchase the Coldry technology in the first half of 2009 and will look towards purchasing the Matmor technology once it has been commercialised.

Significant Changes and Key Events

A number of significant changes in the state of affairs occurred during the financial year.

The company's commercialisation strategy was completed by the formation of a number of strategic alliances with high credibility global brand organisations who are proudly called ECT partners. These include:

Deloitte	*Commercial Partner*
ARUP	*Design Partner*
McConnell Dowell	*Construction and procurement of the plant*

The following significant changes in the state of affairs of the parent entity occurred after the end of the financial year:

Completion of +/- 25 to 30% preliminary feasibility study by ARUP
ARUP's preliminary report, presented in August 2008, included the preparation of a basis of design, resulting in a pre-feasibility estimated construction cost of +/- 25% to 30% for the Coldry commercial plant.

After citing the report, ECT is satisfied the company's brown coal technology is commercially viable and potentially more than two years ahead of any competitor.

Having now defined the critical design parameters, major cost drivers and improvement opportunities for the project, Arup and construction partner McConnell Dowell will undertake further optimisation of design and construction cost estimates of +/- 10%.

Acquisition of Zero Coupon Convertible Note
Pacific Capital Investment Management became ECT's finance partner after shareholders voted in favour of $10M zero coupon convertible note arrangement with the UK-based fund.

ECT called a General Meeting in Melbourne mid-September to gain shareholder approval of the note which will allow access to working capital for the employment of high-level staff and will see building commence on the company's planned 150,000 t.p.a Coldry commercial demonstration plant in the next financial year.

Changes in controlled entities and divisions:

Operating Results

The consolidated loss of the consolidated entity after providing income tax and eliminating minority interest was $3,473,180
(2007: ($3,406,993))

Dividends

No dividends were paid or recommended by the Directors.

Significant Events after the Balance Date

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

On 10 September 2008, the directors held a General Meeting to approve a $10M Convertible Note facility with UK based Pacific Capital Value Fund.

The funds raised by the issue of the Convertible Notes will be used to progress the Company's business strategy. The bulk of the funds will be used in further commercialisation of the Coldry technology, including ongoing feasibility studies and design work for the proposed 150,000 tonne commercial demonstration plant, and preparation for a further capital raising to fund the outright acquisition of the Coldry technology and construction of the Coldry demonstration plant. In addition, funds will be applied to further development of the Matmor technology and increasing the Company's human resources particularly in product management, sales and marketing.

PhillipCapital, the Corporate Advisors to the company have been instructed by the Directors to commence production of an Information Memorandum to enable fund raising for the purchase of the Intellectual Property. An offer has been accepted by the owners of the IP for the purchase of the Coldry Technology for a cash/equity consideration and the ongoing right to utilise the Coldry Technology in Matmor applications.

Future Developments and Results

The Company will be moving to engage a suitable partner to prepare preliminary designs and pre-feasibility studies for a Matmor specific pilot plant to commercialise the Matmor process.

Proceedings on Behalf of the Company

There are no material proceedings by the Company or against the Company.

Environmental Regulation and Performance

ECT will be subject to significant environmental regulations under both Commonwealth and State legislation once production activities commence. The Directors will actively monitor compliance with these regulations and will adopt a best practice environmental compliance system. As at the date of this report, the Directors are not aware of any material breaches of any regulations that currently apply to the company.

Information on Directors

Details of the Directors' qualifications and experience are set out as follows:

Dave Woodall – MBA, Dip Mech Eng, FAICD, FAIM - Non Executive Chairman

Mr Woodall has held senior positions with Queensland China Council (Chairman), Saudi Cable Company (logistics and procurement executive), MIM Holdings (Exec General Manager, Marketing and Commercial), Grainco Australia Ltd (CEO) Mintrade Pty Ltd (CEO) Queensland Country Credit Union Ltd (Chairman). He was awarded the Rabobank Agribusiness Leader of the Year Award in 2005 and is currently a Director of Enigma International Resourcing Pty Ltd, Electronic Exchanges Limited and Australian Grain Exchange Ltd. Mr Woodall has also served on other Boards.

John Hutchinson AOM, RFD, ED, FIEAust, CPEng - Non-Executive Director
Mr Hutchinson is a very experienced engineer in the coal and utilities field. Formerly in a senior position with the State Electricity Commission (SEC. Vic), John was responsible for $12B electricity generating, coal production and Latrobe Valley SEC assets and their performance. He also held positions with Coal Corporation of Victoria (General Manager) and Energy Brix Australia (CEO). Mr Hutchinson is a board member of Gippsland Regional Economy and Ecology Network Inc.

Dr Dennis Brockenshire OAM, DTech, MBA, BComm, Dip ElecEng, Dip MechEng, FAICD, FIE(Aust) - Non-Executive Director

Dennis has over 35 years experience in senior management positions, including 13 years as Managing Director and CEO of Barwon Water and 22 years experience in senior positions in the Electricity Industry. He is Chairman of the Geelong Area Consultative Committee, Member of Deakin University Engineering Academic Advisory Board and Member of the Chancellor's Circle. He is a past Director of Vic Water, Save Water Alliance, Electrical Development Association and Water Services Association of Australia.

Mr Con Galtos MBE FAICD Executive Director (1 July 2007 to 14 May 2008) then Non-Executive Director to 30 June 2008.
Managing Director of ECT until 14 May 2008 and resigned as a director on 30 July 2008.
Mr Con Galtos is an experienced businessman with extensive experience in the finance and investment industries and has established and managed 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.

Mr Murray d'Almeida
Resigned 22 April 2008

Mr John McMullan
Resigned 29 November 2007

Company Secretary

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 and explosives distributor Global Seismic Solutions Pty Ltd. Jan serves on the boards of SSK Real Estate Pty Ltd, Global Seismic Solutions Pty Ltd and the environmental not-for-profit organisation, Greening Australia (Vic) Ltd and is a government appointed councillor on the Victorian Environmental Assessment Council.

Mr Bruce Patterson LLB (Resigned 14 August 2007)

Meetings of Directors

During the year ended 30 June 2008, the number of meetings of the Board of Directors and of each Board Committee and the number of meetings attended by each of the Directors are as follows:

	Board Meetings		*Audit and Risk Committee*	
	No eligible to attend	*No. attended*	*No. eligible to attend*	*No. attended*
Dave Woodall	2	1		
John Hutchinson	12	12	3	3
Dennis Brockenshire	1	1		
Con Galtos	12	12	3	3
Murray d'Almeida	10	9	3	1
John McMullan	5	4		

Retirement, Election and Continuation in Office of Directors

In accordance with the Constitution of Environmental Clean Technologies Limited, at each Annual General Meeting one-third (or a number nearest one-third) of the number of Directors (excluding from the number of Directors the Managing Director, who is exempt from retirement by rotation, and any other Director appointed by the Directors either to fill a casual vacancy or as an addition to the existing Directors) must retire by rotation; and

- any other Director who has held office for three years or more since last being elected; and
- any other Director appointed to fill a casual vacancy or as an addition to the existing Directors.

Accordingly, as Dave Woodall and Dennis Brockenshire have just been re-elected by the General Meeting on 10th September 2008, John Hutchinson will retire by rotation as a Director at the Annual General Meeting and, being eligible, offers himself for re-election.

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 board's 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.

At this stage the remuneration reflects the performance of the company in a development stage in that the levels of remuneration are at the lower end of the market. As the company becomes revenue producing and shareholder wealth increases, regular reviews will be conducted as to the remuneration of directors and executives.

Service Agreements

No directors were appointed on service agreements during the year in their capacity as directors. Each director has a written agreement governing his service as a director.

By consultancy agreement effective 14 August 2007, the Company engaged Blairgowrie Pty Ltd trading as Barwon Law of which Jan Macpherson is a director, to support the Company's secretarial and in house legal functions. This agreement continues.

By agreement dated 1 May 2008 the Company engaged Prima Nova Limited of which Kosmas Galtos is a director, to provide the services of a Chief Executive. This agreement continues.

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 3 and the following additional personnel:

Kosmas Galtos – Chief Executive from 1 May 2008 and prior to that Commercial Manager. Engaged under a service contract with a company related to him (Prima Nova Limited) and of which he is a director. The term of appointment as Chief Executive is three years and the contract requires a three month notice period.

Jan Macpherson – General Counsel and Company Secretary from 14 August 2007. Ms Macpherson is engaged on a part-time basis under a service contract with a company related to her (Blairgowrie Pty Ltd trading as Barwon Law) that contains a one month notice period.

	Short-term benefits			**Post-employment benefits**		**Share-based payment**	
	Cash Salary & Directors fees $	**Consulting fees $**	**Non-monetary benefits $**	**Super-annuation $**	**Accrued termination benefit $**	**Options $**	**Total $**
2008							
Directors							
C Galtos (14/05/07 – 30/7/08)	4,500	111,650	-	-	-	257,000	373,150
M d'Almeida	34,000	41,808	-	-	-	-	75,808
J Hutchinson	30,182	-	-	-	-	-	30,182
J McMullan	27,000	-	-	-	-	-	27,000
Specified executives							
J Macpherson	-	120,832				33,000	153,832
D Mills	-	-	-	-	-	61,500	61,500
S Henbury	-	20,707	-	-	-	-	20,707
R C Johnson	-	-	-	-	-	-	-
K Galtos	-	114,446	-	-	-	70,500	184,946
Total	**95,682**	**409,443**	**-**	**-**	**-**	**422,000**	**927,125**

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 $
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)	-	-	-	-	-	-	-
Specified executives							
D Mills	-	83,750	-	-	25,000	-	108,750
S Henbury	-	108,819	-	-	-	-	108,819
R C Johnson	-	-	-	-	-	-	-
Total	**78,045**	**514,578**	**-**	**-**	**25,000**	**-**	**617,623**

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 received shareholder approval at the Annual General Meeting in November 2007.

Share-based Compensation (audited)

Options over shares in Environmental Clean Technologies Ltd have been granted to key current or past executives of the company to provide long term incentives for executives to deliver long-term shareholder returns. The options issued were approved by shareholders at the general meeting held on 31 October 2007 and the Annual General Meeting on 29 November 2007.

Vesting of the options for Mr Con Galtos, Mr Danny Mills and Mr Kos Galtos are subject to Environmental Clean Technologies Ltd's share price beating set performance targets

Remuneration Report (continued)

Share-based Compensation (audited)

The terms and conditions of each grant of option affecting remuneration in the previous, this or future reporting periods are as follows:

Grant Date	Vesting Criteria – ECT Share Price	Exercise Date	Expiry Date	Exercise Price	Value per option at grant date
31 October 2007	$0.15	31 October 2007	15 February 2010	$0.12	$0.037
31 October 2007	$0.30	31 October 2007	15 February 2010	$0.20	$0.024
31 October 2007	$0.35	31 October 2007	15 February 2010	$0.20	$0.023
7 December 2007	$0.30	7 December 2008	5 October 2010	$0.25	$0.041

Options granted carry no dividend or voting rights.

Details of options over ordinary shares in the company provided as remuneration to each director or executive or former director or executive of Environmental Clean Technologies Limited are set out below. When exercisable, each option is convertible into one ordinary share of Environmental Clean Technologies Limited. Further information on options is set out in note 19 to the financial statements.

Name	Number of options granted during the year		Number of options vested during the year	
	2008	2007	2008	2007
Directors or Executives of Environmental Clean Technologies Limited				
Con Galtos	9,500,000	-	-	-
Kos Galtos	3,000,000	-	-	-
Jan Macpherson	1,000,000		1,000,000	
Former Executive of Environmental Clean Technologies Limited				
Danny Mills	1,500,000	-	-	-

The assessed fair value at grant date of options granted to individuals have been recognised immediately, as there are no vesting conditions requiring the executives to remain in employment. Fair values at grant date are independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the stock price hurdle for vesting, the share price at grant date, expected price volatility of the underlying share, the expected dividend yield, early exercise of options and the risk-free interest rate for the option of the term.

The model inputs for options granted during the year ended 30 June 2008 included:

(a) options are granted for no consideration and vest based on Environmental Clean Technologies Limited share price reach set hurdles: $0.15, $0.30, $0.35 and $0.30;
(b) exercise prices: $0.12, $0.20, $0.20, $0.25;
(c) grant dates: 31 October 2007, 7 December 2007 and 16 February 2008
(d) expiry dates: 15 February 2010, and 5 October 2010;
(e) share price at grant dates: $0.10, $0.14 and $0.09;
(f) expected price volatility of the company's shares: 70%;
(g) expected dividend yield: 0%
(h) early exercise factor: 2.5 and 2
(i) risk-free interest rate: 6.55%

Remuneration Report (continued)

Additional information

For each grant of options included in the tables above, the percentage of the grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the performance criteria was not met is set out below. The options vest only if the Environmental Clean Technologies Limited share price reaches set price hurdles.

Name	Year Granted	Vested %	Forfeited %	Financial years in which options expire	Minimum total value of grant yet to vest $	Maximum total value of grant yet to vest $
Con Galtos	2008	-	-	30/06/2010 30/06/2009	257,000 257,000	257,000 257,000
Kos Galtos	2008	-	-	30/06/2010 30/06/2009	70,500 70,500	70,500 70,500
Danny Mills	2008	-	-	30/06/2011 30/06/2010 30/06/2009	61,500 61,500 61,500	61,500 61,500 61,500
Jan Macpherson	2008	100%	-	N/A	N/A	N/A

Share-based compensation: Options

Further details relating to options are set our below:

Name	A Remuneration consisting of options	B Value at grant date $	C Value at exercise date $	D Value at lapse date $
Con Galtos	68.9%	257,000	-	-
Kos Galtos	38.1%	70,500	-	-
Danny Mills	100%	61,500	-	-
Jan Macpherson	21.5%	33,000	-	-

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.

B = The value at grant date calculated in accordance with AASB 2 *Share-based Payments* of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

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	Number Vested	Number Unvested
Unlisted ordinary options	6,400,000	$0.01	01/11/2008	6,400,000	-
Unlisted ordinary options	41,666,666	$0.12	15/10/2010	41,666,666	-
Unlisted ordinary options	6,000,000	$0.12	15/02/2010	3,500,000	2,500,000
Unlisted ordinary options	10,000,000	$0.20	15/02/2010	-	10,000,000
Unlisted ordinary options	1,500,000	$0.25	05/10/2010	-	1,500,000
Unlisted ordinary options	1,252,478	$0.1522	12/12/2010	1,252,478	-
Unlisted ordinary options	1,000,000	$0.20	14/02/2011	1,000,000	-
Unlisted ordinary options	1,539,145	$0.113	02/06/2011	1,539,145	-

Specified directors and specified executives equity holding:

Fully paid ordinary shares issued by Environmental Clean Technologies Limited

2008

	Held at 1 July 2007 No.	Granted as compensation No.	Received on exercise of options No.	Other change No.	Held at 30 June 2008
C Galtos	-	-	-	416,666	416,666
M d'Almedia	-	-	-	1,863,632	1,863,632
J McMullan	-	-	-	-	-
D Woodall	-	-	-	-	-
S Fraval	-	-	-	-	-
D Mills	-	-	-	-	-
D Brockenshire	-	-	-	-	-
S Henbury	-	-	-	-	-
J Hutchinson	1,844,519	-	-	-	1,844,519
R C Johnson	53,467,255	-	-	-	53,467,255

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 corporate, 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.

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 15.

Signed at Melbourne this 30th September 2008, in accordance with a resolution of the directors.

J Hutchinson
Director

PKF

Chartered Accountants
& Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Environmental Clean Technologies Ltd for the year ended 30 June 2008, 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 audit; and

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

This declaration is in respect of Environmental Clean Technologies Ltd and the entities it controlled during the year.

Michael Phillips

M J Phillips
Partner
PKF
Chartered Accountants

30 September 2008
Melbourne

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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 Chief Executive
- 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 Chief Executive 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 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 contact 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.

The Board currently comprises an independent non-executive Chairman 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 and Compliance Committee

The responsibilities of the Audit and Compliance Committee include assisting the Board to fulfil 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

As there are only three board members the full Board carries out the functions of this committee

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.

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 includes the following:

- Directors must consult with the Chairman of the Board, or in his absence, the Chief Executive, 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.

The Company's main corporate governance and Board practices in place during fiscal year 2008 are described in this section and reported against ASX Corporate Governance Council's (the Council) 'Revised Principles of Good Corporate Governance and 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.ectltdl.com.au.

ESI complies with the ASX Corporate Governance Council's (the Council) 'Revised Principles of Good Corporate Governance and Recommendations' released in August 2007 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.

1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board's main role is to protect and maintain long-term shareholder value and exercise responsibility for the overall corporate governance of Environmental Clean Technologies Limited.
The objective of Environmental Clean Technologies Limited's existing governance framework is to allow the Board to:

- provide strategic direction and guidance for the Company and effective oversight of management;
- facilitate accountability to our shareholders through clearly defined roles and responsibilities for the Board and executive management;
- ensure that there is a balance of power and appropriate authorisations to avoid any individual having sole authority.

Responsibilities of the Board

The responsibilities of the Board can be summarised as follows:

- establish a strategic plan and provide oversight of its control and accountability systems for delivery within the strategic plan;
- ensure that the Company has adequate reporting systems and internal controls;
- establish criteria and review Board membership, identify and nominate Directors for shareholder consideration and appoint and remove the Chief Executive, the Chief Financial Officer or external accountants and the Company Secretary;
- establish and monitor policies to ensure that the Company complies with all applicable laws and regulations;
- appoint and determine an appropriate remuneration package for the Chief Executive and executive team based on clearly defined Key Performance Indicators and reviewed annually;
- develop and approve delegations for the CE;
- ensure that proper arrangements are in place for auditing the Company's financial affairs and that the scope of the external audit is adequate;
- ensure that a sound system of risk oversight and management is established;
- approval and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures; and
- approval and monitoring of financial and other reporting.

Responsibility of Management

The Board has delegated responsibility for management to the Chief Executive. The Chief Executive is accountable to the Board for all authority delegated to him.

The Directors have adopted a comprehensive Corporate Governance Statement, which sets out the responsibilities of the Board and those matters reserved for the Board and those delegated to management. It is available from the Governance section of the Environmental Clean Technologies Limited website at www.ectltd.com.au

The Board's Accountability

The Board receives regular financial reporting and assesses financial performance against budgets and forecasts. There is a strong focus on accounting and financial performance as monitoring and control of ECT's financial performance is paramount to its growth strategy.

The Board receives reports from external auditors and takes all necessary follow-up action. In taking any required action, the Board does not consider the composition of the Board or Management.

The Board has adopted the Directors' Code of Conduct and Communication Plan developed between the CE and external advisors and is increasingly more informative as the business develops in line with its Continuous Disclosure Policy. The Company utilises the Company website to ensure its policies are available for public scrutiny in addition to more formal notices as required by the Corporations Act or the ASX Listing Rules.

2. STRUCTURE THE BOARD TO ADD VALUE

As at the date of this report, the Board comprises three directors. ECT's constitution provides for a minimum of three directors and not more than seven directors.

In accordance with Recommendation 2.2, the Board consists of an independent non-executive chairman, Mr. Dave Woodall, who is not a major shareholder (i.e. neither he nor his associates hold more than 5% of the Company's paid up capital and he has no association with any major shareholder). The other two directors are both independent non-executive directors. Mr John Hutchinson OAM holds a shareholding of 0.59% of the Company and Dr Dennis Brockenshire OAM is not a shareholder of the Company. This arrangement complies with ASX Principle 2.1 as the Board consists of a majority of independent directors.

A Directors' Code of Conduct has been adopted by the Board and published to the Company's website. This Code of Conduct guides the Directors along with the more encompassing Corporate Governance Policy.

Each of the directors has been appointed for the particular skills, expertise and experience that he is able to offer the Company at this time. The Company is identifying other skills that will support its strategic direction but at present the range of skills and breadth of industry and professional expertise held by board members provides a sound basis for increasing the Company's value. Additional directors with public company and commercial experience will be appointed as appropriate.

Board Committees

Remuneration and Nomination Committee

A Remuneration and Nomination Committee has not been formed as a separate committee as all remuneration and appointment issues are dealt with by the full board.

Remuneration

Remuneration of Executives and Management is on par with the low to mid range of market remuneration reflecting the stage of development of the Company. The General Counsel & Company Secretary is engaged through a third party that is an external corporate services provider. There is no CFO but external accounting firm, Rsm Bird Cameron provides these services and is assisted by a contract book keeper.

Audit and Compliance Committee

Mr John Hutchinson, an independent director, chairs this committee. The other member is Dr Dennis Brockenshire. The composition of the Audit and Compliance Committee complies with recommendation 4.3 of the ASX Principles. Committee meetings generally precede board meetings but also meet separately with the External Auditors as required. The General Counsel/Company Secretary attends the Audit and Compliance Committee meetings and the Company's External Auditor attends meetings, generally on a bi-annual basis.

The Board has delegated to the Audit and Compliance Committee responsibility for;

- Advising the board on the matters of external control particularly audit issues;
- Establishing and maintaining processes to ensure that there is adequate systems of internal control, risk management and safeguard of assets; and
- Overseeing the relationship, appointment and work of external auditors.

The Audit Committee meetings are recorded and the Committee reports to the Board at the next Board meeting following the Audit Committee meeting.

3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Ethical Business Behaviour

Environmental Clean Technologies Limited is committed to maintaining high ethical standards in its internal operations and its interaction with shareholders, investors, stakeholders and regulatory bodies. The Company has adopted and applies a Corporate Governance Policy, an Insider Trading Policy and the directors operate under the Directors' Code of Conduct. These policies clarify the standards expected of Directors, Executives and Management and require compliance. The policies are brought to the attention of advisors and consultants and they are also required to comply.

The Board meets on a regular basis and follows meeting guidelines set down to ensure all directors are made aware of and have all necessary information to participate in informed discussion on all agenda items.

The Board of Directors identifies risks and opportunities and seeks assistance from the Company Management and, where applicable from other professional advisors to the Company.

Dealing in Company Shares

The Company has in place an Insider Trading Policy that sets out a procedure for Directors, officers and staff members dealing in the company's securities. The Company's constitution permits directors, officers and staff members to acquire shares in the Company.

The Insider Trading Policy allows directors, officers and staff members to deal in Company shares only when the public is fairly well-informed about the Company. ECT considers it is reasonable for directors, officers and staff members to buy, sell or otherwise deal in the securities of ECT during the so-called 'windows' which are:

- during the currency of a prospectus and any supplementary prospectus for a new issue, while rights are being traded;
- between 3 and 30 days after the release of the half yearly results, preliminary final results and any dividend announcements;
- during the period from 3 days after the release of the annual report to 30 days after the annual general meeting;
- at other times with the approval of the Chairman providing the director, officer or staff member is not in possession of any price sensitive information.

The Board can order the suspension of trading activities at any time during the trading windows if they believe that the directors, officers or staff members are in possession of price sensitive information not yet announced to the market. A copy of the Insider Trading Policy is available from the Governance section of the Environmental Clean Technologies Limited website at www.ectltd.com.au.

4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and Compliance Committee

The Company has established an Audit and Compliance Committee.

The Audit Committee assists the Board in fulfilling its responsibilities relating to the accounting and financial reporting practices of the Company and monitors necessary statutory and regulatory compliance.

The Committee is chaired by an independent non-executive director who is not the Chairperson of the Board and the other member is also an independent non-executive director. As the Board currently consists only of three Directors it is considered appropriate in the circumstances to have only two members of the Audit and Compliance Committee. The Board intends to review the membership of this committee as and when there is appointment of additional Directors.

A formal Audit Committee Charter is incorporated in the overall Corporate Governance Policy which sets the parameters of the conduct and responsibilities of the Committee. The Audit and Compliance Committee is responsible for establishing and maintaining an appropriate framework of internal control. The functions of the Committee include:

- reviewing reports prepared by the external auditors, liaising with the external auditors and ensuring that the annual audit and half-yearly review are conducted in an effective manner;
- reviewing internal controls and recommending enhancements;
- monitoring compliance with the Corporations Act, Australian Securities Exchange Listing Rules and any matters outstanding with taxation and other regulatory authorities;
- monitoring the accounting function;
- nomination of external auditors; and
- overseeing the financial reporting process.

The names and qualifications of those appointed to the Audit Committee and their attendance at meetings of the committee are included in the Directors' Report.

Representations by the Chief Executive

The Chief Executive has provided a management representation letter to the Board for the financial statements where they certify that the Company's financial reports present a true and fair view of the results and the financial position of the Company and are in accordance with relevant accounting standards.

5. MAKING TIMELY AND BALANCED DISCLOSURE

The Board recognises the significance of relevant and timely disclosure and has developed a Continuous Disclosure Policy that is available from the Governance section of the Environmental Clean Technologies Limited website at www.ectltd.com.au. This policy and ongoing formal and informal meetings of the Directors and management ensures accountability and provision of relevant and timely information to all market participants and stakeholders.

It is important to the Company that all investors have timely and equal access to material information and to this end the Company has introduced a quarterly newsletter that it posts out to shareholders and monthly reporting to those shareholders who have provided email contact details for this purpose.

The Company complies with the ASX Listing Rules on Continuous Disclosure and presents all announcements in a balanced and informative manner consulting with the ASX whenever there is any question relating to continuous disclosure.

6. RESPECT THE RIGHTS OF SHAREHOLDERS

The Directors recognise that for shareholders of Environmental Clean Technologies Limited to be able to make informed decisions regarding their investment and to properly participate in Company meetings, they need relevant and timely information. The Board has approved a Communication Plan developed by Management in conjunction with respected and experienced external advisors to ensure the ongoing and timely release of appropriate information.

The Company regularly updates its website with ASX releases (which include all financial releases) and during the year has made several presentations to market representatives and financial analysts. The Chief Executive is in constant communication with shareholder representatives and financial analysts to ensure a full understanding of the company and has introduced a quarterly newsletter that is posted out to shareholders and monthly reporting to those shareholders who have provided email contact details for this purpose.

The Company ensures that it accompanies its financial results with commentary that is informative and balanced. The ECT Annual Report provides shareholders with an overview of the operations and activities for the year and a forward view where clear plans are in place. Where presentations are given by the Chairman or the CE, these presentations are published to the ASX and to the company's website to ensure relevant information is provided to all shareholders.
ECT ensures that it issues an invitation to its Auditor to attend the company's Annual General Meeting and the Auditors have made it their practice to attend and be available to shareholders.

7. RECOGNISE AND MANAGE RISK

The Board has put into place a procedure for ensuring that appropriate risk assessment and management, controls are in place. The Board ensures that adequate procedures are in place to identify the principal risks of ECT's business and ensuring the implementation of appropriate systems to manage these risks. The procedures are not static and are amended to reflect changing circumstances of the developing business.
The Company does not currently have in place internal audit as it has limited resources. This function is carried out by its accountants as it is considered by the Board that this is the appropriate way to address risks. On the basis of the information and assurances given by the accountants and the Chief Executive, the Board is satisfied that risks are being properly managed and financial reporting effectively addresses all material risks.

In its risk management role, the Audit and Compliance Committee assists the Board in reviewing the efficiency and effectiveness of the Company's risk management and compliance environment. The primary responsibilities of the Audit and Compliance Committee is:

- Advising the board on the matter of internal control including financial statements, due diligence, financial systems integrity and risk management;
- Establishing and maintaining processes to ensure that there are adequate systems of internal control, risk management and safeguarding of assets;
- Overseeing the relationship, appointment and work of internal and external auditors;
- Communicating the risk management processes to those responsible for implementing them; and
- Ensuring relevant staff education and awareness of the risk process.

The Board is responsible for determining how the Company deals with and oversees risk and satisfies itself that sound systems for recognising and managing risk are in place. The Company also works closely with its insurance brokers and ensures the appropriate insurances are in place.

8. REMUNERATE FAIRLY AND RESPONSIBLY

The Directors recognise the need for the Board, its committees and individual directors to be evaluated and have developed a policy for Board Performance evaluation that is contained within the Corporate Governance Policy and reproduced on the Environmental Clean Technologies Limited website at www.ectltd.com.au. Board performance is evaluated annually and Directors meet with the Chairman about the board's performance and their individual performance on the board.

The Chief Executive has a remuneration package that includes short and long term incentives in the form of equity in addition to regular remuneration. Clear Key Performance Indicators have been established by the Board in consultation with the Chief Executive and he is regularly mentored and monitored on his performance in accordance with the accepted KPIs. Once the equity component of his remuneration is finalised by the Board it is intended to seek shareholder approval for a formalised plan that will also apply to other executives.

The Directors are engaged by formal agreement and are remunerated at fair market rate. They do not share in any equity based remuneration. The Board considers the remuneration of the directors and CE annually on an individual basis after considering performance and market information. The total allowable remuneration of non-executive Directors is fixed by shareholders in general meetings and is an agenda item for the General Meeting in September 2008 as it had not been considered since 2001.

There are no schemes for retirement benefits other than statutory superannuation for non-executive directors. The remuneration package for the CE is designed to assure that the long term growth and success of the Company is pursued, and a clear nexus is demonstrated between the company's performance and the CE's remuneration package.

The amount of remuneration for all Directors and the highest paid continuing executives, including all monetary and non-monetary components, is detailed in the Directors' Report.

The Board has agreed to a procedure whereby the Directors have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior approval from the Chairman is required but will not be unreasonably withheld.

The Board of Directors and the General Counsel/Company Secretary are responsible for the corporate governance of the Company and were guided by the Directors' Code of Conduct, the Corporate Governance Policy and the ASX Corporate Governance Council Revised Principles of Good Corporate Governance during the financial year. The Board guides and monitors the business affairs of Environmental Clean Technologies Limited and associated entities on behalf of the shareholders to whom they are accountable.

Income Statement
For the year ended 30 June 2008

		CONSOLIDATED		COMPANY	
		2008	2007	2008	2007
	Notes	$	$	$	$
Revenue	3	439,216	306,819	439,216	306,819
EXPENSES					
Material and subcontractor expenses		(925,740)	(937,634)	(925,740)	(937,634)
Employee benefits expense		(144,689)	(173,653)	(144,689)	(173,653)
Share Based Payments		(422,000)	-	(422,000)	-
Depreciation and amortisation		(211,061)	(1,488)	(211,061)	-
Occupancy expense		(145,197)	(151,466)	(145,197)	(151,466)
Patent fees		(12,149)	(57,252)	(12,149)	-
Corporate costs		(397,269)	(599,461)	(397,269)	(599,461)
Consultancy fees		(825,664)	(1,059,884)	(825,664)	(1,059,884)
Travel and accommodation		(80,659)	(107,175)	(80,659)	(107,175)
Insurance expense		(49,017)	(98,521)	(49,017)	(98,521)
Finance costs		(348,796)	(83,402)	(348,796)	(83,402)
Impairment of non-current assets	4	-	-	-	(238,822)
Other expenses from ordinary activities		(350,155)	(443,876)	(350,155)	(443,876)
Loss before income tax		**(3,473,180)**	**(3,406,993)**	**(3,473,180)**	**(3,587,075)**
Income tax (expense)/benefit relating to ordinary activities	5	-	-	-	-
Net loss attributable to the members of Environmental Clean Technologies Limited		**(3,473,180)**	**(3,406,993)**	**(3,473,180)**	**(3,587,075)**

		2008	2007
		Cents	Cents
Earnings per security (EPS) from loss from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings per share	15	(1.20)	(1.36)
Diluted earnings per share	15	(1.20)	(1.36)

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

Balance Sheet
As at 30 June 2008

	Notes	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	COMPANY 2008 $	COMPANY 2007 $
CURRENT ASSETS					
Cash and cash equivalents	6	324,433	44,769	324,433	27,058
Trade and other receivables	7	68,042	127,459	68,042	127,458
Total Current Assets		392,475	172,228	392,475	154,516
NON-CURRENT ASSETS					
Other financial assets	9	-	-	-	-
Property, plant and equipment	8	437,316	644,492	423,340	630,516
Total Non-Current Assets		**437,316**	**644,492**	**423,340**	**630,516**
Total Assets		**829,791**	**816,720**	**815,815**	**785,032**
CURRENT LIABILITIES					
Trade and other payables	10	330,199	965,230	347,911	965,230
Interest bearing liabilities	11	-	778,000	-	778,000
Total Current Liabilities		330,199	1,743,230	347,911	1,743,230
NON-CURRENT LIABILITIES					
Interest bearing liabilities	12	1,427,456	1,233,054	1,427,456	1,233,054
Total Non-Current Liabilities		**1,427,456**	**1,233,054**	**1,427,456**	**1,233,054**
Total Liabilities		**1,757,655**	**2,976,284**	**1,775,367**	**2,976,284**
NET ASSETS		**(927,864)**	**(2,159,564)**	**(959,552)**	**(2,191,252)**
EQUITY					
Contributed equity	13	28,700,683	24,411,300	31,992,609	27,703,226
Reserves	14	1,195,346	779,849	1,195,346	779,849
Retained losses	14	(30,823,893)	(27,350,713)	(34,147,507)	(30,674,327)
TOTAL EQUITY		**(927,864)**	**(2,159,564)**	**(959,552)**	**(2,191,252)**

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

Statement of Changes in Equity
For the Year Ended 30 June 2008

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Total equity at the beginning of the financial year	**(2,159,564)**	**77,430**	**(2,191,252)**	**225,824**
Share Based Payments	422,000	-	422,000	-
Equity component of convertible notes issued	-	767,849	-	767,849
Issue of shares by the Group	4,282,880	402,150	4,282,880	402,150
Net income recognised directly in equity	**4,704,880**	**1,169,999**	**4,704,880**	**1,169,999**
Loss for the year	(3,473,180)	(3,406,993)	(3,473,180)	(3,587,075)
Total recognised income and expense for the year	**(3,473,180)**	**(3,406,993)**	**(3,473,180)**	**(3,587,075)**
Total equity at the end of the financial year attributable to members of the Company	**(927,864)**	**(2,159,564)**	**(959,552)**	**(2,191,252)**

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

Cash Flow Statement
For the year ended 30 June 2008

	Notes	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	COMPANY 2008 $	COMPANY 2007 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of goods and services tax)		10,953	139,708	10,953	139,708
Payments to trade creditors, other creditors and employees (inclusive of goods and services tax)		(3,598,338)	(3,076,999)	(3,580,627)	(2,858,352)
Interest paid		-	(95)	-	(95)
Interest received		13,054	4,985	13,054	4,985
Grants received		25,000	213,000	25,000	213,000
Net cash outflows from operating activities	21	**(3,549,331)**	**(2,719,401)**	**(3,531,620)**	**(2,500,754)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(3,885)	(633,980)	(3,885)	(630,516)
Repayment of borrowings		(450,000)	-	(450,000)	-
Net cash outflows from investing activities		**(453,885)**	**(633,980)**	**(453,885)**	**(630,516)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issuing convertible notes		-	2,000,000	-	2,000,000
Loans to subsidiary		-	-	-	(238,822)
Proceeds from/(Repayments of) borrowings		-	778,000	-	778,000
Proceeds from issuing of shares		4,282,880	402,150	4,282,880	402,150
Net cash inflows from financing activities		**4,282,880**	**3,180,150**	**4,282,880**	**2,941,328**
Net increase/(decrease) in cash held		279,664	(173,231)	297,375	(189,942)
Cash at the beginning of the financial year		44,769	218,000	27,058	217,000
CASH AT THE END OF THE FINANCIAL YEAR	6	**324,433**	**44,769**	**324,433**	**27,058**

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

Cash Flow Statement
For the year ended 30 June 2008

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 30 September 2008 and 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, other authoritative pronouncements of the Australian Accounting Interpretations and the *Corporations Act 2001.*

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRSs). Compliance with AIFRSs ensures that the consolidated and parent financial statements and notes comply with International Financial Reporting Standards (IFRSs).

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).

Adoption of new accounting standard

The Group has adopted AASB 7 *Financial Instruments; Disclosures* and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the entity.

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.

1. Summary of Significant Accounting Policies (cont)

(b) Principles of Consolidation

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.

(c) Going concern

For the year ended 30 June 2008 the consolidated entity had a negative net asset position of $927,864, a loss of $3,473,180, and a negative cash flow from operating activities of $3,549,331. 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. These conditions indicate a material uncertainty that may cast significant doubt about the consolidated entity's and parent entity's ability to continue as a going concern.

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) The right to issue to up to $10M in convertible notes over a three year period. The subscription will be in $500K tranches with a maximum $2M of convertible notes issued in the first 6 months. ECT has agreed the terms of a subscription agreement with UK managed Pacific Capital Investment Management, which is subject to normal approvals and is expected to be completed shortly.
(ii) Access to a $15 million equity line of credit facility for three years (executed in 2007) with Fortrend Securities Pty Ltd.

Cash flow forecasts prepared by management demonstrate that the Company has sufficient cash flows to meet its commitments over the next twelve months.

Should the consolidated entity or company be unable to continue as a going concern, they may be required to realise their assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

Based on the above capital raising activities and cash flow forecasts prepared, 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.

1. Summary of Significant Accounting Policies (cont)

(d) Foreign Currency Translation

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 at 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.

(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 – 7.5 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.

1. Summary of Significant Accounting Policies (cont)

(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.

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.

1. Summary of Significant Accounting Policies (cont)

(m) Employee Benefits

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.

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.

Interest Revenue

Interest revenue is recognised using the effective interest rate method when it accrues.

1. Summary of Significant Accounting Policies (cont)

(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.

(r) Earnings Per Share

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.

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.

1. Summary of Significant Accounting Policies (cont)

(t) Research and development expenditure

Expenditure in respect of research and development expenditure is charges 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) New standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

Revised AASB 3 Business Combinations changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests.

Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.

AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8

AASB 8 and AASB 2007-3 are effective from annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires, adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided on when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

Revised AASB 101 Presentation of Financial Statements introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income".

The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.

Revised AASB 127 Consolidated and Separate Financial Statements changes the accounting for investments in subsidiaries.

1. Summary of Significant Accounting Policies (cont)

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

Key changes include: the re-measurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.

AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations

AASB 2008-1 changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial report.

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 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 note 9 the directors have assessed that 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 12 for details of these assumptions.

	CONSOLIDATED		COMPANY	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
3. Revenue				
Operating revenue				
Revenue from continuing operations:				
Grants received	25,000	213,000	25,000	213,000
Miscellaneous	588	50,833	588	50,833
Rental income from subleases	30,482	38,001	30,482	38,001
	56,070	301,834	56,070	301,834
Other revenue:				
Interest Received	13,054	4,985	13,054	4,985
Other	18,565	-	18,565	-
Total operating revenue	87,689	306,819	87,689	306,819
Non-Operating revenue				
Debts forgiven under deed of commercial arrangement	351,527	-	351,527	-
Total revenue	**439,216**	**306,819**	**439,216**	**306,819**

4. Expenses

Loss before income tax includes the following specific expenses:

Impairment of non current assets	-	-	-	238,822
Depreciation				
Plant and equipment	211,061	1,488	211,061	-
Borrowing Costs				
Interest and finance charges paid/payable	154,394	83,402	154,394	83,402
Unwinding of discount on convertible note	194,402	-	194,402	-
Research & Development expenditure	906,517	1,928,337	906,517	1,928,337
Rental expense relating to operating leases				
Minimum lease payments	145,197	151,465	145,197	151,465

5. Income Tax Expense

	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	COMPANY 2008 $	COMPANY 2007 $
(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	**(3,473,180)**	**(3,406,993)**	**(3,473,180)**	**(3,587,075)**
Tax at the Australian tax rate of 30% (2006 – 30%)	(1,041,954)	(1,022,098)	(1,041,954)	(1,076,123)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Impairment of non current assets	-	-	-	71,647
Share-based payments	(126,600)	-	(126,600)	-
Deferred tax asset not recognised	1,168,554	1,022,098	1,168,554	1,004,476
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.

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	$	$	$	$
6. Current Assets – Cash and Cash Equivalents				
Cash at bank and on hand	324,433	44,769	324,433	27,058
7. Current Assets - Receivables				
Trade debtors	37,079	17,112	37,079	17,111
Allowance for doubtful debts	(37,079)	-	(37,079)	-
Prepayments	27,545	-	27,545	-
Goods and services tax (GST) receivable	40,497	110,347	40,497	110,347
	68,042	127,459	68,042	127,458

Receivables considered impaired are: Consolidated $37,079 (2007: $nil); Parent $37,079 (2007: $nil).

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

Fair value and credit risk
Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

Ageing Analysis - Trade Debtors

Name	Total Due	0 - 30	31 - 60	61 - 90	90+
Nicholson River Resort	37,078.63	3,615.10	1,891.49	6,265.75	25,306.29

A Provision for doubtful debts has been raised for the total amount due.

8. Non-Current Assets - Property, Plant and Equipment

	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	COMPANY 2008 $	COMPANY 2007 $
Plant and equipment:				
Plant and equipment – at cost	630,516	651,879	630,516	630,516
Less: Accumulated depreciation	(210,151)	(7,387)	(210,151)	-
	420,365	644,492	420,365	630,516
Furniture & Fixtures:				
Furniture & Fixtures – at cost	23,136	-	1,773	-
Less: Accumulated depreciation	(7,595)	-	(208)	-
	15,541	-	1,565	-
Leasehold Improvements:				
Leasehold Improvements – at cost	2,112	-	2,112	-
Less: Accumulated depreciation	(702)	-	(702)	-
	1,410	-	1,410	-
	437,316	**644,492**	**423,340**	**630,516**

8. 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:

2008	**Total $**
CONSOLIDATED	
Carrying amount at 1 July 2007	644,492
Additions	3,885
Disposals	-
Depreciation/amortisation expense	(211,061)
Carrying amount at 30 June 2008	437,316
COMPANY	
Carrying amount at 1 July 2007	630,516
Additions	3,885
Disposals	-
Depreciation/amortisation expense	(211,061)
Carrying amount at 30 June 2008	423,340

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

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	$	$	$	$
9. Non Current Asset – Other				
Loans to wholly owned controlled entity	-	-	-	597,822
Shares in wholly-owned controlled entity, at cost	-	-	-	1,600,000
Impairment write down	-	-	-	(2,197,822)
	-	-	-	-

10. Current Liabilities – Payables

	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	COMPANY 2008 $	COMPANY 2007 $
Trade payables	99,308	702,992	99,308	702,992
Other payables	230,891	262,238	230,891	262,238
Loan - APCS	-	-	17,712	-
	330,199	965,230	347,911	965,230

Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 23.

11. Current Liabilities – Interest Bearing Liabilities

	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	COMPANY 2008 $	COMPANY 2007 $
Loans - unsecured	-	778,000	-	778,000
	-	778,000	-	778,000

12. Non-Current Liabilities – Interest Bearing Liabilities

	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	COMPANY 2008 $	COMPANY 2007 $
Convertible Note	1,427,456	1,233,054	1,427,456	1,233,054
	1,427,456	1,233,054	1,427,456	1,233,054

The debt portion of the convertible note has been calculated at its fair value in accordance with AASB 132 – Financial Instruments: Presentation.

The convertible note issued on 27 June 2007 for $2,000,000 is 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%

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	$	$	$	$
13. Contributed Equity				
Balance at beginning of financial year	24,411,300	23,991,150	27,703,226	27,283,076
Issue of shares by the group	4,282,880	402,150	4,282,880	402,150
Transfer of fair value of options exercised from Options reserve	6,503	18,000	6,503	18,000
Balance at end of financial year	28,700,683	24,411,300	31,992,609	27,703,226

Reconciliation of Company share movements

	No of shares	$
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**
Issue of shares through year	46,195,823	4,217,852
Exercise of options through year	6,502,857	65,029
Balance at 30 June 2008	**313,985,883**	**31,986,107**

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	Number Vested	Number Unvested
Unlisted ordinary options	6,400,000	$0.01	01/11/2008	6,400,000	-
Unlisted ordinary options	41,666,666	$0.12	15/10/2010	41,666,666	-
Unlisted ordinary options	6,000,000	$0.12	15/02/2010	3,500,000	2,500,000
Unlisted ordinary options	10,000,000	$0.20	15/02/2010	-	10,000,000
Unlisted ordinary options	1,500,000	$0.25	05/10/2010	-	1,500,000
Unlisted ordinary options	1,252,478	$0.1522	12/12/2010	1,252,478	-
Unlisted ordinary options	1,000,000	$0.20	14/02/2011	1,000,000	-
Unlisted ordinary options	1,539,145	$0.113	02/06/2011	1,539,145	-

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital by reference to cashflow forecasts in relation to operating revenue and expenditure. The Group also monitors its capital expenditure requirements to identify any additional capital required. This is obtained via the formation of strategic alliances, utilisation of the existing Fortrend facility or the acquisition of a zero coupon convertible note.

13. Contributed Equity (cont.)

Capital Management (cont.)

The gearing ratios at 30 June 2008, were as follows:

	CONSOLIDATED		COMPANY	
	2008 $	2007 $	2008 $	2007 $
Total interest bearing liabilities	1,427,456	2,011,054	1,427,456	2,011,054
Less cash and cash equivalents	(324,433)	(44,769)	(324,433)	(44,769)
Net debt	1,103,023	1,966,285	1,103,023	1,966,285
Total equity	(927,864)	(2,159,564)	(927,864)	(2,159,564)
Gearing ratio	54.3%	47.7%	54.3%	47.7%

14. Reserves and Retained Losses

	CONSOLIDATED		COMPANY	
	2008 $	2007 $	2008 $	2007 $
Reserves				
Share option reserve	427,497	12,000	427,497	12,000
Convertible notes reserve	767,849	767,849	767,849	767,849
Total reserves	1,195,346	779,849	1,195,346	779,849
Movements in reserves were:				
Share option reserve				
Opening balance	12,000	30,000	12,000	30,000
Fair value of options issued during the year	422,000	-	422,000	-
Transfer of fair value of options exercised to contributed equity	(6,503)	(18,000)	(6,503)	(18,000)
Closing balance	427,497	12,000	427,497	12,000
Convertible note equity reserve				
Opening balance	767,849	-	767,849	-
Equity component of convertible notes issue	-	767,849	-	767,849
Closing balance	767,849	767,849	767,849	767,849

Accumulated Losses

Accumulated losses at the beginning of the financial year	(27,350,713)	(23,943,720)	(30,674,327)	(27,087,252)
Net loss attributable to members of the Group	(3,473,180)	(3,406,993)	(3,473,180)	(3,587,075)
Accumulated losses at the end of the financial year	(30,823,893)	(27,350,713)	(34,147,507)	(30,674,327)

14. Reserves and Retained Losses (cont.)

Nature and purpose of reserves

Share option reserve

The share option reserve is used to recognise:

- The fair value of options issued to employees but not exercised
- The fair value of options issued to employees

Convertible note equity reserve

The Convertible note equity reserve is used to recognise the fair value of the equity component of convertible notes issued by the Group.

15. Earnings Per Share

	2008 Cents	2007 Cents
(a) Basic earnings per share		
Loss attributable to the ordinary equity holders of the Company	(1.20)	(1.36)
(b) Diluted earnings per share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	(1.20)	(1.36)
Profit from discontinued operations	N/a	N/a
Profit attributable to the ordinary equity holders of the Company	(1.20)	(1.36)

	2008 $000	2007 $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	(3,473,180)	(3,406,993)

	2008 Number	2007 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	289,872,993	250,971,575

There are 48,427,319 (2007 – 22,931,220) share options excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are anti-dilutive for either of the periods presented.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

16. Controlled Entities

Name	Notes	Country of Incorporation	Ordinary Share Consolidated Equity Interest 2008 %	2007 %
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 lodge audited financial statements.

17. 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. These milestones were amended on 25 March 2008 by mutual agreement. The commitments which remain outstanding after the year end are as follows:

- Within 30 days of notice being given by Maddingley either once the Matmor Process has been proved, or at 31 December 2010 (whichever is the earlier) – Commissioning of 6000 tonne per annum Matmor Steel demonstration plant at JBD Park, Bacchus Marsh;
- 30 January 2009 – 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.

17. Commitments and Contingent Liabilities (cont)

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 Technology;
- 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 2008 have a net book value of $437,316 for $1.

ECT has entered into a Letter of Intent with the Calleja Group, owners of the Coldry and Matmor technologies, for the acquisition of the intellectual property of the Coldry process. ECT has an exclusive right under a Participation Agreement with the technology owners to licence the Coldry and Matmor processes and under the terms of the Letter of Intent will purchase the intellectual property in the Coldry process. The Option will have an initial expiry date of 27 February 2009 however ECT may extend the option period until 1 July 2009 by giving written notice and paying an extension fee. The consideration to be paid by ECT for the Units upon exercise of the Option will comprise both cash and Options. If ECT does not exercise the Option before it expires, the Participant's Agreement will remain in force and the Maddingley Parties will not take action to terminate the Agreement.

	CONSOLIDATED		COMPANY	
	2008 $	2007 $	2008 $	2007 $
Lease Commitments - Property				
Future operating lease commitments not provided for in the financial statements and payable:				
Within one year	-	42,849	-	-
Later than one year but not later than five years	-	-	-	-
Later than five years	-	-	-	-
	-	42,849	-	-

18. Remuneration of Auditors

	CONSOLIDATED		COMPANY	
	2008 $	2007 $	2008 $	2007 $
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	66,970	34,000	66,970	34,000
Other	-	-	-	-
	66,970	34,000	66,970	34,000

19. Key Management Personnel Disclosures

Directors

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

M d'Almeida – Non-Executive Chairman
C Galtos – Managing director until 14 May 2008 then Non-Executive Director.
J McMullan – Non-Executive director
D Brockenshire – Non-Executive director (appointed 2 May 2008)
D Woodall – Non-Executive Chairman (appointed 22 April 2008)
J Hutchinson – Non-Executive director

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
J Macpherson – Company Secretary (appointed 14 August 2007)

Key management personnel compensation

	CONSOLIDATED		COMPANY	
	2008 $	2007 $	2008 $	2007 $
Short-term employee benefits	505,125	592,623	505,125	592,623
Post-employment benefits	-	25,000	-	25,000
Long term benefits	-	-	-	-
Share-based payments	360,500	-	360,500	-
Termination Benefits	61,500	-	61,500	-
	927,125	617,623	927,125	617,623

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 the remuneration report on pages 8 to 12.

Equity instrument disclosures relating to key management personnel

(i) *Options provided as remuneration and shares issues on exercise of such options*

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on pages 8 to 12.

19. Key Management Personnel Disclosures (cont.)

(ii) Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Environmental Clean Technologies Limited and other key management personnel of the Group, including their personally related parties, are set out below:

2008	Balance at start of year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Con Galtos	-	9,500,000	-	-	9,500,000	-	9,500,000
Kos Galtos	-	3,000,000	-	-	3,000,000	-	3,000,000
Jan MacPherson	-	1,000,000	-	-	1,000,000	1,000,000	-

There were no options held during 2007.

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	
	2008 $	2007 $	2008 $	2007 $
Amounts recognised as expenses				
Legal services – John McMullan & Assoc. (John McMullan)	-	264,960	-	264,960
Legal services – Blairgowrie Pty Ltd (Jan Macpherson)	60,740	-	60,740	-

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

2008

	Held at 1 July 2007 No.	Granted as compensation No.	Received on exercise of options No.	Other change No.	Held at 30 June 2008
C Galtos	-	-	-	416,666	416,666
M d'Almedia	-	-	-	1,863,632	1,863,632
J McMullan	-	-	-	-	-
D Woodall	-	-	-	-	-
S Fraval	-	-	-	-	-
D Mills	-	-	-	-	-
D Brockenshire	-	-	-	-	-
S Henbury	-	-	-	-	-
J Hutchinson	1,844,519	-	-	-	1,844,519
R C Johnson	53,467,255	-	-	-	53,467,255

19. Key Management Personnel Disclosures (cont.)

2007

	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

20. 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 16.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 19.

(d) Loans to/from related parties

The following loans occurred with related parties:

	CONSOLIDATED		COMPANY	
	2008 $	2007 $	2008 $	2007 $
Loans to controlled entity				
Balance at beginning of the year	-	-	-	359,000
Loans advanced	-	-	-	238,822
Loan repayments received	-	-	-	-
Impairment write-down (2007)	-	-	-	(597,822)
Balance at end of the year	-	-	-	-
Loans from R C Johnson				
Balance at beginning of the year	-	-	778,000	-
Loans advanced	-	-	-	778,000
Loan repayments received	-	-	(426,473)	-
Loan Forgiven	-	-	(351,527)	-
Balance at end of the year	-	-	-	778,000

The above loan was repayable on demand and interest is payable on the outstanding balance at 7.5% per annum. The Loan was forgiven on 31 December 2007.

21. Notes to the Cash Flow Statements

Reconciliation of Net Cash Flows from Operating Activities to Net Profit from Ordinary Activities after Income Tax

	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	COMPANY 2008 $	COMPANY 2007 $
Operating loss after income tax	(3,473,180)	(3,406,993)	(3,473,180)	(3,587,075)
Debt forgiven	(351,527)	-	(351,527)	-
Depreciation and amortisation	211,061	1,488	211,061	-
Impairment of non current assets	-	-	-	238,822
Doubtful Debt Provision	37,079	-	37,079	-
Issue of share options	414,473	-	414,473	-
Changes in assets and liabilities (net of effects of acquisition and disposal of entities):				
(Increase)/decrease in trade and other debtors	22,339	49,971	22,339	(83,834)
Increase/(decrease) in trade and other payables	(409,576)	636,133	(391,865)	931,333
Net cash outflow from operating activities	(3,549,331)	(2,719,401)	(3,531,620)	(2,500,754)

22. 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.

23. 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 and Chief Executive Officer on a regular basis by reviewing current and potential sources of funding, cashflow and operating/capital expenditure forecasts, to manage credit, liquidity and cash flow risk.

(a) Market risk

Foreign exchange risk

The Group's operations are currently solely within Australia, and therefore are not exposed to any foreign exchange risk.

Cash flow and fair value interest rate risk

The Group currently has minimal exposure to interest rate risk with its borrowings being a fixed rate convertible note.

As at the reporting date, the Group had no variable rate borrowings, as such the 2008 and 2007 reports would not be impacted by changes in interest rates.

Fluctuations in interest rates will not have any material risk exposure to the cash held in bank deposits at variable rates.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as exposures to customers, including outstanding receivables. For banks and financial institutions, on major Australian banking institutions are used. For customers, individual risk limits are set based on internal or external ratings in accordance with limits set by the Board.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 39. The company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the company.

23. Financial Risk Management (cont)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group aims at maintaining flexibility in funding by keeping committed credit lines available to meet the Groups needs.

Maturities of financial liabilities

The tables below analyse the Group's and the parent entity's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group – 30 June 2008

		Less than 3 months	*3 months to 1 year*	*1 - 5 years*	*5 + Years*	*Total*
		$	$	$	$	$
Non-Interest Bearing		(99,308)	(230,891)			(330,199)
Loans			-			-
Convertible Note				(1,427,456)		(1,427,456)

Group 30 June 2007

		Less than 3 months	*3 months to 1 year*	*1 - 5 years*	*5 + Years*	*Total*
		$	$	$	$	$
Non-Interest Bearing		(461,893)	(503,337)			(965,230)
Loans			(778,000)			(778,000)
Convertible Note				(1,233,054)		(1,233,054)

Parent – 30 June 2008

		Less than 3 months	*3 months to 1 year*	*1 - 5 years*	*5 + Years*	*Total*
		$	$	$	$	$
Non-Interest Bearing		(99,308)	(248,603)			(347,911)
Loans			-			-
Convertible Note				(1,427,456)		(1,427,456)

Parent – 30 June 2007

		Less than 3 months	*3 months to 1 year*	*1 - 5 years*	*5 + Years*	*Total*
		$	$	$	$	$
Non-Interest Bearing		(461,893)	(503,337)			(965,230)
Loans			(778,000)			(778,000)
Convertible Note				(1,233,054)		(1,233,054)

23. Financial Risk Management (cont)

(c) 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.

24. Events Subsequent to Reporting Date

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

On 10 September 2008 the directors held a General Meeting to approve a $10M Convertible Note facility with UK based Pacific Capital Value Fund.

The funds raised by the issue of the Convertible Notes will be used to progress the Company's business strategy. The bulk of the funds will be used in further commercialisation of the Coldry technology, including ongoing feasibility studies and design work for the proposed 150,000 tonne commercial demonstration plant, and preparation for a further capital raising to fund the outright acquisition of the Coldry technology and construction of the Coldry demonstration plant. In addition, funds will be applied to further development of the Matmor technology and increasing the Company's human resources particularly in product management, sales and marketing.

PhillipCapital, the Corporate Advisors to the company have been instructed by the Directors to commence production of an Information Memorandum to enable fund raising for the purchase of the Intellectual Property.

ECT has entered into a Letter of Intent (refer Note 17(b)) with the Calleja Group, owners of the Coldry and Matmor technologies, for the acquisition of the intellectual property of the Coldry process. ECT has an exclusive right under a Participation Agreement with the technology owners to licence the Coldry and Matmor processes and under the terms of the Letter of Intent will purchase the intellectual property in the Coldry process. If ECT does not exercise the Option before it expires, the Participant's Agreement will remain in force and the Maddingley Parties will not take action to terminate the Agreement.

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 2008 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.

JHutchinson

John Hutchinson
Director

Melbourne

30 September 2008

PKF

Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Environmental Clean Technologies Limited

Report on the Financial Report

We have audited the accompanying financial report of Environmental Clean Technologies Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Environmental Clean Technologies Limited (the company) and the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the 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. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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Level 14, 140 William Street | Melbourne | Victoria 3000 | Australia
GPO Box 5099 | Melbourne | Victoria 3001

Independence

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

Auditor's Opinion

In our opinion:

(a) the financial report of Environmental Clean Technologies Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Emphasis of Matter - Material Uncertainty Regarding Continuation As A Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter.

The company and the consolidated entity incurred losses of $3,473,180 (2007 $3,587,075) and $3,473,180 (2007 $3,406,993) respectively for the year ended 30 June 2008 and had net asset deficiencies of $959,552 (2007 $2,191,252) and $927,864 (2007 $2,159,564) respectively. As a result of this and the matters described in Note 1(c) to the financial statements, there is material uncertainty which may cast significant doubt about the ability of the company and the consolidated entity to continue as going concerns, and therefore whether they will be able to pay their debts as and when they fall due and realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. The financial report has been prepared on a going concern basis for the reasons set out in Note 1(c) and does not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 13 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Environmental Clean Technologies Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Acts 2001*.

PKF

Michael Phillips

PKF
Chartered Accountants

M J Phillips
Partner

30 September 2008, Melbourne

CORPORATE DIRECTORY

Directors	D Woodall D Brockenshire 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	Deacons RACV Tower, 485 Bourke St Melbourne Vic 3000 Barwon Law 30 King Street Glen Iris Vic 3146
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	796
1,001 – 5,000	814
5,001 – 10,000	402
10,001 – 100,000	1162
100,001 and over	368
	3,542

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
Paldar Nominees Pty Ltd	24,396,087	7.77%
R C Johnson Pty Ltd	18,121,166	5.77%
Jackson Street Pty Ltd (Inv a/c)	14,702,251	4.68%
JB No 2 Pty Ltd	11,740,554	3.74%
Smit Super Pty Ltd	10,512,500	3.35%
RBC Dexia Investor Services Account	10,243,902	3.26%
Caracob Pty Ltd	6,423,457	2.05%
Peter Robert Dusting	6,313,131	2.01%
HSBC Custody Nominees	6,054,910	1.93%
D Wilson Investments Pty Ltd	5,951,731	1.90%
Mr Patrick Giles and Mr Adam Giles	4,697,407	1.50%
DW & CA James	3,506,079	1.12%
Robert Co Pty Ltd	3,142,308	1.00%
Hanley Family Pty Ltd	3,000,000	0.96%
Graeme A Wood Pty Ltd	3,000,000	0.96%
Rodney K Davison	3,000,000	0.96%
Jogenwatodo Pty Ltd	2,761,181	0.88%
Calibre Pty Ltd	2,257,661	0.72%
Deboer Holdings Pty Ltd	2,200,000	0.70%
Daniel P Milson	2,050,000	0.65%
	144,074,325	45.91%

Shareholder Information (cont.)

C. Substantial holders

Substantial holders in the company are set out below:

	Ordinary Shares	
	Number held	Percentage of issued shares
Paldar Nominees Pty Ltd	24,396.087	7.77%
RC Johnson Pty Ltd	18,121,166	5.77%

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.