# Appendix 4D – Half Year Report

Lodged with the ASX under Listing Rule 4.2A

Current Period: Half Year Ended 31 December 2012
Prior corresponding period: Half Year Ended 31 December 2011

**Results for announcement to the market**

| **Key Information** | | | | **$** |
|---|---|---|---|---|
| **Revenue** from ordinary activities | Up | 128.50% | To | 1,306,913 |
| **Loss** from ordinary activities after tax | Down | 30.46% | To | 1,891,705 |
| **Loss** for the period attributable to members | Down | 30.46% | To | 1,891,705 |

| **Explanation of Results** |
|---|
| Please refer to the accompanying media release and 'Review and Results of Operations' in the Directors' report that is within the Half year report. |

| **Dividends** |
|---|
| No payments made or declared for the half year ended 31 December 2012. |

| **Financial Statements** |
|---|
| Refer to the attached Financial Report. |

| **Other information required by Listing Rule 4.2A** |
|---|
| The remainder of the information requiring disclosure to comply with Listing Rule 4.2A is contained below, in the Director's Report, Financial Report and media release. |

| **NTA Backing** | **2012** | **2011** |
|---|---|---|
| Net tangible assets per share | -0.01 cents | - 0.02 cents |
| | | |

| **Controlled entities acquired or disposed of** |
|---|
| N/A |

| **Associates and joint venture entities** |
|---|
| Victoria Coldry Pty Ltd |
| Coldry East Kalimantan Pty Ltd |
| ECT China Ltd |

| **Review** |
|---|
| The accounts were subject to a review by the auditors and the review report is attached as part of the Interim Report. |

Adam Giles

Company Secretary

28 February 2013

ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED

# Half Year Financial Report

31 December 2012

Level 7, 530 Little Collins Street, Melbourne Vic, 3000 Australia | Phone +613 9909 7684 | www.ectltd.com.au | ABN 28 009 120 405
Listed on the Australian Stock Exchange (ASX:ESI)

## Contents

# Company Details

### Directors

| | |
|---|---|
| Michael Davies | Managing Director/Executive Chairman |
| Ashley Moore | Executive Director/Chief Operating Officer |
| Stephen Carter | Non-Executive Director |
| Iain McEwin | Non-Executive Director |

### Secretary

| | |
|---|---|
| John Osborne | Ceased – 3 December 2012 |
| Adam Giles | Appointed – 3 December 2012 |

### Principal Registered Office in Australia

Level 7

530 Little Collins St

Melbourne Vic 3000

### Share Register

Security Transfer Registrars Pty Ltd

770 Canning Highway

Applecross Perth 6153

### Auditors

BDO East Coast Partnership

Level 14

140 William Street

Melbourne Victoria 3000

### Bankers

National Australia Bank Limited

3/330 Collins Street

Melbourne Victoria 3000

### Securities Exchange

ASX Limited

Level 4, North Tower Rialto

525 Collins Street

Melbourne Victoria 3000

# Directors' Report - 31 December 2012

Your directors present their report and the financial statements of the Company for the half-year ended 31 December 2012.

## Directors

The following persons were directors of Environmental Clean Technologies Limited (ECT or the Company) during the whole of the half-year and up to the date of this report:

- Michael Davies
- Ashley Moore
- Stephen Carter
- Iain McEwin

## Principal Activities

### Coldry Process

The Coldry process is ECT's first technology proven to be commercially viable as an economic method of dewatering brown coal to produce a black coal equivalent.

Once applied, the mechanically simple Coldry process produces pellets that are stable, easily stored, can be transported and are of equal or higher energy value than black coal. Essentially, Coldry works by initiating a chemical reaction to expel water from lignite and sub-bituminous coals. The following process is applied:

- Screening and adding a small quantity of water to the raw coal
- Initiating an exothermic chemical reaction to expel water through attritioning and extrusion of a plasticized mixture
- Warm air toughening of the extruded mixture on a conditioning conveyer prior to pack bed dryer delivery
- Formation of Coldry pellets and removal/collection of moisture in a pack bed dryer
- Stockpiling of high energy Coldry pellets and distilled water ready for use or transport / export

The pellets can then be used in electricity generation in black or brown coal power stations and coal-to-oil applications. Existing brown coal power stations that consume Coldry pellets and immediately gain benefits without the need for significant modifications to plant infrastructure including:

- Emissions savings
- Reduced ash costs
- Access to increased water supply and drought mitigation
- Improved thermal efficiency
- These factors also drive the business case for deployment of super critical black coal technologies with their ensuing efficiency and financial benefits, on brown coal mines. New power stations can also be built with confidence that they can secure supply of a 'Black Coal Equivalent' based on abundant, under exploited, brown coal reserves that perform extremely well with next generation gasification technologies. The high chemical reactivity of Coldry pellets delivers higher yield per tonne of coal and enables the products use as an ideal front-end feedstock solution for coal-to-oil technologies, eliminating the need for costly and energy intensive oil slurry drying.
- The Coldry process delivers a 'Gateway technology' that enables an ideal front-end feedstock solution for numerous new technology applications.

## Matmor Process

Matmor is a clean, low-emission, one-step process for producing high-grade primary iron using brown coal.

The Matmor process is positioned to revolutionise primary iron making, creating a high-grade iron product from brown coal and ferrous media such as iron ore, mill scale or other iron bearing waste tailings. The revolution lies in the design of our simple, low cost, low emission, patented Matmor retort using cheaper, alternative raw materials. Essentially the process involves blending wet brown coal (lignite) with iron ore or other ferrous metal bearing media to form a paste that is dewatered using the Coldry process. The pellets are then fed into a simple low cost, low emission patented Matmor retort where the remaining moisture is removed, the coal volatiles are driven off and the iron oxides are reduced to metal. The advantages of the Matmor process over existing steel making processes are:

- Replacement of expensive metallurgical coal with cheap, abundant lignite
- Replacement of expensive high grade Iron Ore (60%+Fe) with lower grade Iron Ore
- Capital equipment cost is estimated at 50% less than traditional blast furnaces
- Process requires significantly less heat / energy
- Able to recover baghouse dust, millscale and other waste materials
- Can be adapted to reduce Zinc, Nickel and Chromium

## Matmor Intellectual Property

The intellectual property (IP), including patents, in relation to Matmor technology is owned by Matmor Steel Pty Ltd, a company controlled by the Calleja Group.

ECT, through its subsidiary Asia Pacific Coal & Steel Pty Ltd (APCS), entered into an agreement (Participants Agreement) with Matmor Steel (and related parties) to commercialise the patents and trade secrets and procure the manufacture of Matmor products on a commercial scale. This Agreement was dated 29 July 2005. Under the Agreement, ECT, through APCS, obtained licences and trade secrets for the purposes of commercialising Matmor technology.

Essentially, the Agreement specified milestones and a timetable for the further development of the Matmor technology and production facilities including the construction of a 6,000 tonne per annum pilot scale Demonstration Plant.

Variations have been made to the Agreement effective 10 April 2006, 16 January 2008, 29 June 2009 and 30 June 2009. These variations had the effect of amending the timetable for some aspects of Matmor technology development including construction of a pilot scale Demonstration Plant. The last variation required ECT to commence construction of a 6,000 tonne per annum Matmor plant by 31 December 2012. ECT is in discussion with Matmor Steel in relation to a further variation to the Agreement to enable the timely development of Matmor plant design and construction plans prior to determining a practicable construction timetable for the pilot scale Demonstration Plant. Negotiations regarding a variation to the Agreement are expected to complete during the second half of calendar 2013.

## Coal Resources

In May 2012 ECT advised it had entered into an agreement to secure an interest in a coal exploration licence in the Latrobe Valley, Victoria known as EL5119.

The agreement essentially provides access to an area of approximately 33 sq.kms, adjacent to the existing Exempt Zone and south east of the Hazelwood power station and mine.

Under the agreement, ECT will meet the costs of all exploration work required to prove up the reserves of lignite located within EL5119 to “measured reserve” status as defined in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the “JORC Code”).

ECT has secured these rights over EL5119 to potentially provide an additional lignite resource in the Latrobe Valley. Such a resource would complement commercialisation of the Coldry technology in this region and assist in securing partners and finance for future production facilities.

Development work will commence following formal granting of the Exploration Licence, converting it from its current Exploration Licence Application (ELA) status.

## Review and Results of Operations

The first half of the 2012/13 financial year has been eventful and in a difficult environment the Company has raised new capital, succeeded with a $1.29m Research and Development rebate, been shortlisted for Advanced Lignite Demonstration Program (ALDP) funding for the Commercial Demonstration Plant (CDP) and advanced the Design For Tender (DFT) program which, when completed, will provide the detailed engineering for a 2 million tonne per annum (mtpa) Coldry plant in addition to the designs for the Commercial Demonstration Plant. The Company has continued to progress development of the Matmor technology with the testing of numerous lignites and iron bearing materials from both domestic and overseas sources.

The net result of operations after applicable income tax expense was a loss of $1,891,705 in the six months to 31 December 2012 (six months to 31 December 2011 loss: $2,720,503). The reduced loss was chiefly attributable to a more than doubling of the R&D rebate received from the Australian Taxation Office in addition to substantially reduced Administration and Finance costs and Remuneration costs. The reduced loss occurred despite a much higher spend on the Design For Tender program compared with the previous period and expenses associated with the initial development of coal exploration licence EL5119 and the costs involved in the preparation of our application for ALDP funding.

On 19 July 2012, ECT issued a Shareholder update on capital raising and the status of the Monash Capital share placement transaction. In the update, shareholders were advised that if Monash was unable to fully complete the share placement transaction by the due date of 26 July 2012, it had offered a contingency program under which the price per share would increase to $0.02 for a total consideration of $6.0m. In this update, the Company also advised that it had accepted a FAST Finance loan through Greenard Willing, which will provide a $1.0m advance against the expected R&D tax refund, which was received in October 2012.

On 26 July 2012, the Company announced it had received $500,000 to date in part satisfaction of the Monash Capital share placement and confirmed it would commit to provide the contingency offer referred to in the 19 July 2012 update which effectively increased the Monash share placement proceeds to $6.0m.

On 6 August 2012, ECT advised that it would apply for grant funding under a $90m government-funding program known as Advanced Lignite Demonstration Program (ALDP) announced on 3 August 2012. ALDP is a joint state and federal government program designed to accelerate the development and commercialisation of new lignite upgrading technologies in the Latrobe Valley. ECT has since submitted the application for grant funds to assist with construction of its planned Commercial Demonstration Plant.

On 8 October 2012, ECT announced that it had been successful in being granted patent coverage for Coldry technology in Europe. In this update, the Company also advised that it had lodged its R&D tax refund, having a face value of $1.29m, and consequently exercised an option to “top up” the 2012 FAST Finance loan by $300,000 on the same terms as the original facility.

On 9 November 2012, the Company announced that it had received $1.29m from the Australian Taxation Office in respect of the R&D tax refund lodged earlier in the period. Also on this date ECT announced that it had received the official Certificate for its Canadian Coldry patent.

On 21 November 2012, ECT advised that it had executed an agreement in favour of ARUP for the placement of a Strategic Deliverable Bond for up to $2,500,000 in order to deliver the balance of the Design for Tender (DFT) program and other pre-construction engineering works associated with the development and delivery of Coldry technology. Also in this announcement, the Company advised it had submitted a detailed Expression of Interest (EOI) to Advanced Lignite Demonstration Program for consideration.

On 28 November 2012, the Company advised that K-Coal and ECT had signed a letter of intent (LOI) in respect of equity participation in ECT’s Coldry Commercial Demonstration Plant (CDP).

On 4 December 2012, ECT advised of the resignation of John Osborne as Company Secretary and the appointment, effective 3 December 2012, of Adam Giles.

On 13 December 2012, the Company announced that its Expression of Interest (EOI) for Advanced Lignite Demonstration Program (ALDP) funding had been shortlisted and it had been invited to submit a response to the Request for Proposal (RFP).

### Dividends

No dividends were declared by the directors of ECT in relation to the half-year period ended 31 December 2012.

## Matters Subsequent to the End of the Financial Half-Year

On 4 February 2013, ECT advised that it had finalised a FAST Finance loan of $1,700,000 and a share placement of $506,515 managed through Greenard Willing and Platinum Road. The FAST Finance loan is an advance against the expected R&D tax refund due in October/November 2013. Also in this announcement, it was advised the Company had fully satisfied the 2012 FAST Finance loan by a combination of cash repayment and issuance of shares.

On 15 February 2013, the Company released a Shareholder Update in relation to the status of the Design For Tender Program (DFT). In this update, shareholders were advised that the core plant design, referred to as Phase 1, had been completed and Phases 2 and 3 had been realigned to support ECT’s submission for grant funding under the Advanced Lignite Demonstration Program (ALDP). The realignment of the DFT Program, in support of the ALDP submission, is expected to result in the Commercial Demonstration Plant (CDP) execution phase to commence during the fourth quarter of calendar 2013.

Other than the matters noted above, there are no matters or circumstances that have arisen since 31 December 2012 that have significantly affected or may significantly affect:

(a) the Company’s operations in future financial years,

(b) the results of those operations in future financial years, or

(c) the Company's state of affairs in future financial years.

## Significant Changes in the State of Affairs

There was no significant change in the state of affairs of the Company, during the year.

## Future Developments

At the date of this report, there are no likely developments in the operations of this company required to be reported in accordance with sub-section 299(1)(e) of the Corporations Act 2001.

## 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 8.

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

**Mr Michael Davies**

**Managing Director**

Melbourne, 27 February 2013

ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED

# Auditor's Independence Declaration

BDO

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

Level 14, 140 William St
Melbourne VIC 3000
GPO Box 5099 Melbourne VIC 3001
AUSTRALIA

**DECLARATION OF INDEPENDENCE BY DAVID GARVEY TO THE DIRECTORS OF ENVIRONMENTAL CLEAN TECHNOOGIES LIMITED**

As lead auditor for the review of Environmental Clean Technologies Limited for the half-year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been:

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

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

David Garvey

Partner

**BDO East Coast Partnership**

Melbourne, 27 February 2013

# Independent Auditor's Review Report

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

Level 14, 140 William St
Melbourne VIC 3000
GPO Box 5099 Melbourne VIC 3001
AUSTRALIA

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Environmental Clean Technologies Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying consolidated half-year financial report of Environmental Clean Technologies Limited which comprises the consolidated statement of financial position as at 31 December 2012, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the disclosing entity and the entities it controlled at half-year's end or from time to time during the half-year.

#### Directors' Responsibility for the Half-Year Financial Report

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

#### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Environmental Clean Technologies Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

#### Independence

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

ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED

# Independent Auditor's Review Report

BDO

**Conclusion**

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

**Emphasis of Matter**

Without modifying our conclusion, we draw attention to Note 1(a) in the financial report, which indicates for the half-year ended 31 December 2012 the consolidated entity incurred an operating loss before tax of $1,891,705 and as of that date reflects net cash outflows from operating activities of $529,677. Furthermore, the consolidated entity is reliant on equity capital or loans from third parties to meet its operating costs. These conditions, along with other matters as set forth in Note 1(a), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern, and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

**BDO East Coast Partnership**

BDO

David Garvey

David Garvey

Partner

Melbourne, 27 February 2013

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ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED

# Directors' Declaration

In the directors' opinion:

(a) The financial statements and notes set out on pages 12 to 19 are in accordance with the *Corporations Act 2001,* including:

  (i) Complying with Accounting Standard AASB 134 Interim Financial Reporting, *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the financial period 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.

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

On behalf of the Directors

**Mr Michael Davies**

**Managing Director**

Melbourne, 27 February 2013

# Consolidated Statement of Comprehensive Income

| | | 31 Dec 2012 | 31 Dec 2011 |
|---|---|---|---|
| | | $ | $ |
| Revenue from Continuing Operations | 3(a) | 14,830 | 18,482 |
| Other Revenue | 2 | 1,292,083 | 553,463 |
| | | 1,306,913 | 571,945 |
| Corporate costs | | 487,502 | 294,711 |
| Depreciation and amortisation expenses | | 269,956 | 444,040 |
| Employee benefits expense | | 750,229 | 898,837 |
| Finance costs | 3(b) | 10,333 | 31,700 |
| Legal costs | | 59,723 | 265,916 |
| Sales & Marketing | | 179,664 | 131,276 |
| Occupancy expenses | | 89,189 | 60,108 |
| Plant – Coldry/Matmor | 3(c) | 1,229,156 | 914,829 |
| Travel and accommodation expenses | | 72,866 | 98,578 |
| Unwinding of Earn Out | | - | 124,075 |
| Other | | 50,000 | 28,378 |
| **Loss before Income Tax Expense** | | (1,891,705) | (2,720,503) |
| Income Tax Expense | | - | - |
| **Loss for the period attributable to owners of the parent** | | (1,891,705) | (2,720,503) |
| Other Comprehensive Income | | - | - |
| **Total comprehensive income for the period attributable to owners of the parent** | | **(1,891,705)** | (2,720,503) |
| | | Cents | Cents |
| Basic earnings per share | | (0.12) | (0.52) |
| Diluted earnings per share | | (0.12) | (0.52) |

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED

# Consolidated Statement Of Financial Position

| | Note | 31 Dec 2012 | 30 June 2012 |
|---|---|---|---|
| | | $ | $ |
| **Current Assets** | | | |
| Cash and cash equivalents | 4 | 1,054,559 | 285,872 |
| Trade and other receivables | 6 | 99,476 | 109,590 |
| Other current assets | 7 | 130,620 | 130,764 |
| **Total Current Assets** | | 1,284,655 | 526,226 |
| **Non-Current Assets** | | | |
| Investments accounted for using the equity method | | 2 | 2 |
| Property, plant and equipment | | 149,105 | 177,425 |
| Intangible assets | | 7,920,000 | 8,160,000 |
| **Total Non-Current Assets** | | 8,069,107 | 8,337,427 |
| **Total Assets** | | 9,353,762 | 8,863,653 |
| **Current Liabilities** | | | |
| Trade and other payables | | 986,792 | 1,024,153 |
| Provisions | | 85,577 | 72,902 |
| Interest bearing liabilities | 8 | 1,800,000 | - |
| **Total Current Liabilities** | | 2,872,369 | 1,097,055 |
| **Non-Current Liabilities** | | | |
| Provisions | | 7,882 | 7,882 |
| Earn out creditor | | 489,461 | 489,461 |
| **Total Non-Current Liabilities** | 9 | 497,343 | 497,343 |
| **Total Liabilities** | | 3,369,712 | 1,594,398 |
| **Net Assets** | | 5,984,050 | 7,269,255 |
| **Equity** | | | |
| Issued capital | | 50,124,912 | 49,518,412 |
| Accumulated losses | | (44,140,862) | (42,249,157) |
| **Total Equity** | | 5,984,050 | 7,269,255 |

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes.*

ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED

# Consolidated Statement Of Changes In Equity

| | Issued Capital | Reserves | Retained Earnings | Total Equity |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Balance at 1 July 2011** | **44,989,191** | **221,033** | **(36,957,591)** | **8,252,633** |
| Transfer to/from Share options reserve | - | (9,375) | 9,375 | - |
| Loss for the Period | - | - | (2,720,503) | (2,720,503) |
| **Total comprehensive income for the period** | **-** | **-** | **(2,720,503)** | **(2,720,503)** |
| Equity component of convertible notes issued | - | 30,663 | 112,981 | 143,644 |
| Issue of shares by the Group | 2,478,388 | - | - | 2,478,388 |
| **Balance 31 December 2011** | **47,467,579** | **242,321** | **(39,555,738)** | **8,154,162** |
| | | | | |
| **Balance at 1 July 2012** | **49,518,412** | **-** | **(42,249,157)** | **7,269,255** |
| Transfer to/from Share options reserve | - | - | - | - |
| Loss for the Period | - | - | (1,891,705) | (1,891,705) |
| **Total comprehensive income for the period** | **-** | - | (1,891,705) | (1,891,705) |
| Issue of shares by the Group | **606,500** | **-** | **-** | **606,500** |
| **Balance 31 December 2012** | **50,124,912** | **-** | **(44,140,862)** | **5,984,050** |

ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED

# Consolidated Statement Of Cash Flows

| | 31 Dec 2012 | 31 Dec 2011 |
|---|---|---|
| | $ | $ |
| **Cash Flows from Operating Activities** | | |
| Research and Development Offset | 1,292,083 | 188,782 |
| Payments to suppliers and employees | (1,836,590) | (2,750,655) |
| Interest received | 14,830 | 15,390 |
| **Net Cash Outflow from Operating Activities** | (529,677) | (2,546,483) |
| **Cash Flows from Investing Activities** | | |
| Payments for property, plant & equipment | (1,636) | (2,495) |
| **Net Cash Outflow from Investing Activities** | (1,636) | (2,495) |
| **Cash Flows From Financing Activities** | | |
| Receipts from issue of equity | - | 2,688,140 |
| Receipts from borrowings | 1,300,000 | - |
| **Net Cash Inflow from Financing Activities** | 1,300,000 | 2,688,140 |
| **Net Increase in Cash Held** | 768,687 | 139,162 |
| Cash at the beginning of the reporting period | 285,872 | 670,653 |
| **Cash at the End of the Reporting Period** | 1,054,559 | 809,815 |

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.*

ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED

# Notes To And Forming Part Of The Financial Statements

## 1. Basis Of Preparation Of Half-Year Report

This general purpose financial report for the interim half year reporting period ended 31 December 2012 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2012 and any public announcements made by Environmental Clean Technologies Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

**1(a) Going Concern**

For the half year ended 31 December 2012 the consolidated entity had an operating loss before tax of $1,891,705 and net current liabilities of $1,587,714 and cash outflow from operating activities of $529,677. Furthermore, the consolidated entity has not had 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 ability to continue as a going concern.

The ability of the consolidated entity to continue as a going concern is dependent upon a number of factors, one being the continuation and availability of funds. 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.

To this end, the consolidated entity is expecting to fund ongoing obligations as follows:

i) The Company expects to receive $6m from Monash Capital Group in settlement of the Share Placement Agreement in tranches over the period March to May 2013. The terms of this Share Placement Agreement were approved by Shareholders at the 29 November 2012 Annual General Meeting.

ii) The Company is planning to convene a general meeting of shareholders in April 2013 to seek retrospective approval of placements and other issues of securities that had not been already approved by shareholders. At the same meeting shareholder approval will be sought for the Company to make placements of approximately $5 million worth of shares at any time up to July 2019. If shareholders approve the resolutions put to the proposed meeting planned for in April 2013 the Directors, on behalf of the Company, will have authority to raise substantial funds by way of placements to meet its business objectives. In a difficult environment for raising equity capital over the past two years the Company has demonstrated its ability to secure equity funding.

iii) The company is in discussions with various parties to secure on-going working capital and funding to build a Coldry Commercial Demonstration Plant (CDP) with production capacity of 167,000 tonnes per annum in the Latrobe Valley to prove the economics of Coldry production in Victoria.

iv) The company has executed an agreement in favour of its engineering development partner ARUP for the placement of a Strategic Deliverable Bond for up to $2,500,000 in order to deliver the balance of the Design for Tender (DFT) program and other engineering works associated with the development and delivery of the Coldry technology.

The key terms of the Bond are:

- Amount: Up to AU$2,500,000
- Term: 12 months
- Interest Rate: 0%
- Convertibility: ESI shares will be issued at a price of 90% of the lowest VWAP of the preceding 5 days trade.

**1(a) Going Concern (Cont'd)**

v) Post period end, the Company has finalised a "FAST Finance" loan of $1,700,000 and share placement of $506,515 managed through Greenard Willing and Platinum Road. The FAST Finance loan is an advance against the expected R&D tax concession due in October-November 2013.

The Board believes that this is a reasonable source of short-term finance and an appropriate arrangement.

The key terms of the FAST Finance loan are as follows:

- Term: 12 months
- Repayment: Cash in full from the R&D tax rebate refund
- Interest Rate: 15% p.a. payable upfront

The key terms of the placement are as follows:

- Average of the 3 daily VWAP prior to settlement x 80%

Based on the above 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.

Should the consolidated entity be unable to continue as a going concern, it may be required to realise its 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. The financial statements do 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 necessarily incurred should the consolidated entity not continue as a going concern.

**2. Other Revenue**

Other revenue is $1,292,083, which represents the 2012 Research and Development Offset received during the period. The 2011 comparative of $553,463 represents the 2010 and 2011 R&D offset received during that period.

**3. Interest Revenue and Expense**

| | 31 Dec 2012 | 31 Dec 2011 |
|---|---|---|
| | $ | $ |
| Operating profit before income tax is arrived at after: | | |
| a. Crediting interest as revenue | 10,991 | 15,482 |
| Profit on sale of assets | - | 3,000 |
| Other Income | 3,839 | - |
| | 14,830 | 18,482 |
| b. Charging interest as an expense | | |
| - finance charges | 10,333 | 30,744 |
| - fees | - | 956 |
| | 10,333 | 31,700 |
| c. Plant – Coldry/Matmor | | |
| - Plant maintenance/fuel | 28,603 | 180,591 |
| - Transport, hire of labour/equipment | 29,605 | 149,931 |
| - Plant equipment – product development | 25,420 | 68,258 |
| - Design for tender (ARUP) | 1,145,528 | 516,049 |
| | 1,229,156 | 914,829 |

## 4. Cash And Cash Equivalents

| | 31 Dec 2012 | 30 Jun 2012 |
|---|---|---|
| | $ | $ |
| Cash at bank and in hand | 1,054,559 | 285,872 |
| | 1,054,559 | 285,872 |

(a) The above figures are reconciled to cash at the end of the financial year as shown in the consolidated statement of cash flows as follows:

| | | |
|---|---|---|
| Balances as above | 1,054,559 | 285,872 |
| Balances per statement of cash flows | 1,054,559 | 285,872 |

## 5. Issuances, Repurchases And Repayments Of Securities

During the half-year reporting period, Environmental Clean Technologies Ltd issued 45,680,556 ordinary shares as settlement for outstanding liabilities.

| | No. Shares |
|---|---|
| **Balance at 30 June 2012** | 1,571,593,752 |
| Issue of shares in settlement of debts | 45,680,556 |
| **Balance at 31 December 2012** | **1,617,274,308** |

## 6. Receivables

| | 31 Dec 2012 | 30 June 2012 |
|---|---|---|
| | $ | $ |
| Goods & Services Tax (GST) Receivable | 99,476 | 109,590 |
| | 99,476 | 109,590 |

## 7. Other Current Assets

| | 31 Dec 2012 | 30 June 2012 |
|---|---|---|
| | $ | $ |
| Loan – Coldry East Kalimantan | 17,055 | 17,055 |
| Deposits Paid | 13,146 | 24,561 |
| Prepayments | 98,705 | 87,434 |
| Other | 1,714 | 1,714 |
| | 130,620 | 130,764 |

## 8. Current Liabilities

| | 31 Dec 2012 | 30 June 2012 |
|---|---|---|
| | $ | $ |
| Fast Finance Loan | 1,300,000 | - |
| ARUP Bond | 500,000 | - |
| | 1,800,000 | - |

Notes:

1. The FAST Finance loan for $1.3m has since period-end been fully extinguished through repayment of cash, conversion into ordinary shares and the balance rolled forward into a new $1.7m facility.
2. The ARUP Bond for $500,000 has since period-end been extinguished through conversion into ordinary shares.

## 9. Non-Current Liabilities

| | 31 Dec 2012 | 30 June 2012 |
|---|---|---|
| | $ | $ |
| Provisions | 7,882 | 7,882 |
| Earn Out Creditor[1] | 489,461 | 489,461 |
| | 497,343 | 497,343 |

## 10. Financial Reporting By Segments

A segment is a component of the consolidated entity that engages in business activities to provide products or services within a particular economic environment. The company operates predominantly in the environmental and energy industry, and a single geographic segment being Australia. The board of directors assess the operating performance of the group based on management reports that are prepared on this basis.

## 11. Events Occurring After Reporting Date

On 4 February 2013, the Company advised it had finalised a FAST Finance loan of $1,700,000 and a share placement of $506,515 managed through Greenard Willing and Platinum Road. The FAST Finance loan is an advance against the expected R&D tax refund due in October/November 2013. Also in this announcement, it was advised the Company had fully satisfied the 2012 FAST Finance loan by a combination of cash repayment and issuance of shares.

On 15 February 2013, the Company released a Shareholder Update in relation to the status of the Design For Tender Program (DFT). In this update, shareholders were advised that the core plant design, referred to as Phase 1, had been completed and Phases 2 and 3 had been realigned to support ECT's submission for grant funding under the Advanced Lignite Demonstration Program (ALDP). The realignment of the DFT Program, in support of the ALDP submission, is expected to result in the Commercial Demonstration Plant (CDP) execution phase to commence during the fourth quarter of calendar 2013.

## 12. Commitments And Contingent Liabilities

There have been no material changes to commitments or contingencies since 30 June 2012.

[1] On 29 June 2009, ECT acquired the units in the Coldry Trust and the shares in Maddingley Coldry Pty Ltd, the entities which owned the Coldry intellectual property. Under the asset purchase agreement, part of the cost to ECT included a payment of up to $3,000,000 as an earn-out payable based on the rate of $0.50 for every tonne of coal produced from any commercialisation of the Coldry Technology. The fair value of the earn-out is calculated based on the co-ordination agreement with TinCom where the expected royalty payments have been calculated using the production timetable and a rate of $0.50 per tonne of coal.