

Environmental Clean Technologies Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Environmental Clean Technologies Limited
ABN:	28 009 120 405
Reporting period:	For the half-year ended 31 December 2016
Previous period:	For the half-year ended 31 December 2015

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	142.6% to	37,722
Loss from ordinary activities after tax attributable to the owners of Environmental Clean Technologies Limited	up	23.7% to	(2,342,583)
Loss for the half-year attributable to the owners of Environmental Clean Technologies Limited	up	23.7% to	(2,342,583)

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the consolidated entity after providing for income tax amounted to \$2,342,583 (31 December 2015: \$1,893,959).

Refer to the 'Review of operations' within the Directors' report for further commentary on the results.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(0.05)</u>	<u>(0.01)</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

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7. Dividend reinvestment plans

The following dividend or distribution plans are in operation:

The last date(s) for receipt of election notices for the dividend or distribution plans: Not applicable.

8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$	Previous period \$
Victoria Coldry Pty Ltd	50.00%	50.00%	-	-
Coldry East Kalimantan Pty Ltd	50.00%	50.00%	-	-
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			-	-
Income tax on operating activities			-	-
Associates and joint ventures of the consolidated entity are not material.				

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report, which is attached as part of the Interim Report, contains a 'material uncertainty relating to going concern' paragraph.

11. Attachments

Details of attachments (if any):

The Interim Report of Environmental Clean Technologies Limited for the half-year ended 31 December 2016 is attached.

12. Signed

Signed Ashley Moore

Date: 28 February 2017

Ashley Moore
 Managing Director
 Melbourne

Environmental Clean Technologies Limited

ABN 28 009 120 405

Interim Report - 31 December 2016

Environmental Clean Technologies Limited
Directors' report
31 December 2016

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Environmental Clean Technologies Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

Directors

The following persons were directors of Environmental Clean Technologies Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Glenn Fozard - Chairman
Ashley Moore - Managing Director
Barry Richards
David Smith

Principal activities

During the financial period, the principal continuing activities of the consolidated entity consisted of investment, research, development and commercialisation of environmentally cleaner technologies and processes capable of reducing carbon emissions and environmental damage in the energy and resource sectors. These included:

- development of a large-scale demonstration project for the Coldry Process;
- advancement of the Matmor Process toward pilot scale; and
- managing the development of, and extracting value from, the consolidated entity's intellectual property.

Coldry process

The Coldry process is low temperature, low pressure and therefore a low cost method of de-watering low-rank coal to produce an upgraded black coal equivalent. The process is currently poised to progress from pilot-scale to demonstration-scale allowing techno-economic validation ahead of intended broader commercial roll-out.

The Coldry process produces pellets that are stable, easily stored, can be transported, and are of equal or higher energy value than many black coals. When used in electricity production, Coldry pellets have a significantly lower CO₂ footprint than the low-rank coal from which they are made, providing a compelling abatement solution.

The Coldry process also acts as a 'Gateway technology', making an ideal front-end feedstock that enables numerous higher value upgrading applications such as coal to oil, gas and iron production. When integrated with our Matmor process, the Coldry process provides an essential and cost effective front-end drying and pelletising solution that enables the world's first and only low-rank coal based primary iron production method.

Essentially, the Coldry process combines two mechanisms to achieve efficient, cost-effective de-watering; Brown Coal Densification; and Waste Heat Utilisation. Brown Coal Densification is achieved through the destruction of the internal porous structures, mobilising the structurally trapped water within low-rank coal. Waste Heat Utilisation provides 'free' evaporative energy to remove the moisture, thereby minimising paid energy input, resulting in net energy uplift and net CO₂ reductions.

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Matmor process

Matmor is a cleaner, lower-emission, one-step process for producing high-grade primary iron, using low-rank coal to displace the need for coking coals, as used in the incumbent blast furnace process.

The Matmor process leverages a fundamentally different chemical pathway compared to the incumbent blast furnace process, enabling the use of alternative raw materials, providing a lower-cost primary iron making alternative.

Matmor creates a high-grade iron product from low-rank coal and ferrous media such as iron ore, mill scale or other iron bearing wastes or tailings. The process involves blending low-rank coal with iron ore or other metal oxide bearing media to form a paste that is dewatered using the Coldry process. The 'composite' pellets are then fed into ECT's 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 Matmor process operates below 1000°C, compared to a blast furnace which operates at around 1500°C. Lower temperature operation requires less energy input and results in less thermal stress on the plant, enabling lower cost materials to be used in its construction.

Matmor metal product is an ideal feedstock for the production of specific grades and forms of iron and steel, via secondary processes such as electric arc, induction furnace or fully integrated steel making.

Intellectual property

The Group owns both the Coldry and Matmor intellectual property. The Coldry process is covered by patents, or pending patents in all major markets with significant brown coal deposits.

Matmor is covered by an Australian patent, and due to its intrinsic reliance on Coldry for feedstock preparation, is afforded an additional degree of protection via Coldry patents. In markets where neither Coldry nor Matmor patents exist, the company will employ other IP protection strategies.

In November, the Company submitted a new Australian provisional patent application on an improved Metal Oxide Reduction process, HydroMOR. The new process, HydroMOR, is an improvement over the existing Matmor process, deriving further advantage from its unique raw material base, especially the hydrocarbon-rich low-rank coals used in the role of reductant. The process derives its name from the utilisation of Hydrogen to enhance the reduction process used to create metals from ore.

The benefits the Company sees in the application of the HydroMOR process include further reductions in capital cost due to its ability to achieve the required metal reduction at a lower temperature, and operating savings in terms of raw material efficiency improvements, as well as decreased CO2 intensity. With the capital cost savings being applied to carbon offsets, this brings closer the potential of carbon emissions neutral steel production.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$2,342,583 (31 December 2015: \$1,893,959).

Cash operating expenses (Total expenses less non-cash finance costs, movement in earn-out provision and depreciation and amortisation expense) was higher at \$1,591,417 (2015: \$1,047,408), an increase of \$544,009 or 52%.

Total expenses increased, driven by the non-cash item of depreciation, engineering costs related to the preparation of the India project, and upgrade of the HVTF facility. While non-cash items increase the total loss for the period, the depreciation contributes to claimable research and development expenses which provides financial benefit to the company.

Employee expense increased for the period compared to the comparative period, mainly due to the appointment of staff to support the preparation for the India project.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

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Matters subsequent to the end of the financial half-year

Following the receipt of the 2015-2016 R&D Tax Incentive refund of \$1,524,471 on 21 December 2016, the company repaid the Brevet loan facility of \$1,464,965 on 10 January 2017.

The company drew down \$360,000 of the new Brevet loan facility during January 2017.

AusIndustry granted the company's application for an Advance Finding and Overseas ruling in relation to the Coldry activities planned under its India project. Under R&D Tax Incentive legislation, companies must seek prior approval before claiming overseas expenditure. The estimated value to the company based on the current project budget is approximately \$10 million. The company is in the process of submitting its application for an Advance Finding and Overseas Ruling in relation to the Matmor component of the India project.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

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 immediately after this directors' report.

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

On behalf of the directors



Ashley Moore
Managing Director

28 February 2017
Melbourne

DECLARATION OF INDEPENDENCE BY WAI AW TO THE DIRECTORS OF ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED

As lead auditor for the review of Environmental Clean Technologies Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Wai Aw
Partner

BDO East Coast Partnership

Melbourne, 28 February 2017

Environmental Clean Technologies Limited

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General information

The financial statements cover Environmental Clean Technologies Limited as a consolidated entity consisting of Environmental Clean Technologies Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Environmental Clean Technologies Limited's functional and presentation currency.

Environmental Clean Technologies Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 502,
Level P5, 9 Yarra Street
South Yarra, Vic 3141

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2017. The directors have the power to amend and reissue the financial statements.

Environmental Clean Technologies Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2016

		Consolidated	
	Note	31 Dec 2016	31 Dec 2015
		\$	\$
Revenue	3	37,722	15,546
Other income	4	953,114	571,819
Expenses			
Corporate costs		(445,755)	(435,196)
Legal costs		(85,052)	-
Employee benefits expense		(483,499)	(358,058)
Sales and marketing		(53,553)	(65,310)
Depreciation and amortisation expense	5	(1,681,408)	(1,521,502)
Engineering and design costs		(258,683)	(57,224)
Occupancy expense		(56,147)	(72,575)
Travel and accommodation		(46,539)	(57,135)
Movement in earn-out provision	11	-	486,547
Finance costs	5	(222,783)	(400,871)
Loss before income tax expense		(2,342,583)	(1,893,959)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Environmental Clean Technologies Limited		(2,342,583)	(1,893,959)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year attributable to the owners of Environmental Clean Technologies Limited		<u>(2,342,583)</u>	<u>(1,893,959)</u>
		Cents	Cents
Basic earnings per share	18	(0.08)	(0.07)
Diluted earnings per share	18	(0.08)	(0.07)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Environmental Clean Technologies Limited
Statement of financial position
As at 31 December 2016

		Consolidated	
	Note	31 Dec 2016	30 Jun 2016
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		1,634,784	684,314
Trade and other receivables	6	1,104,645	1,673,589
Other		14,314	24,448
Total current assets		<u>2,753,743</u>	<u>2,382,351</u>
Non-current assets			
Investments accounted for using the equity method		2	2
Property, plant and equipment	7	723,418	1,384,206
Intangibles		6,000,000	6,240,000
Total non-current assets		<u>6,723,420</u>	<u>7,624,208</u>
Total assets		<u>9,477,163</u>	<u>10,006,559</u>
Liabilities			
Current liabilities			
Trade and other payables	8	578,414	448,874
Borrowings	9	1,782,613	1,057,223
Provisions	10	2,078,124	2,082,469
Total current liabilities		<u>4,439,151</u>	<u>3,588,566</u>
Non-current liabilities			
Provisions	11	440,911	371,247
Total non-current liabilities		<u>440,911</u>	<u>371,247</u>
Total liabilities		<u>4,880,062</u>	<u>3,959,813</u>
Net assets		<u>4,597,101</u>	<u>6,046,746</u>
Equity			
Issued capital	12	61,041,640	60,084,680
Reserves	13	4,093,742	4,157,764
Accumulated losses		(60,538,281)	(58,195,698)
Total equity		<u>4,597,101</u>	<u>6,046,746</u>

Environmental Clean Technologies Limited
Statement of changes in equity
For the half-year ended 31 December 2016

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2015	57,051,403	4,087,394	(53,957,631)	7,181,166
Loss after income tax expense for the half-year	-	-	(1,893,959)	(1,893,959)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(1,893,959)	(1,893,959)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	1,780,398	-	-	1,780,398
Issued Options	-	20,000	-	20,000
Exercised options net of adjustments	-	(756,892)	-	(756,892)
Balance at 31 December 2015	<u>58,831,801</u>	<u>3,350,502</u>	<u>(55,851,590)</u>	<u>6,330,713</u>
Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2016	60,084,680	4,157,764	(58,195,698)	6,046,746
Loss after income tax expense for the half-year	-	-	(2,342,583)	(2,342,583)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(2,342,583)	(2,342,583)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 12)	225,000	-	-	225,000
Share-based payments (note 19)	-	9,001	-	9,001
Exercised options net of adjustments (note 12)	658,937	-	-	658,937
Transfer option premium (exercised options) net of adjustments	73,023	(73,023)	-	-
Balance at 31 December 2016	<u>61,041,640</u>	<u>4,093,742</u>	<u>(60,538,281)</u>	<u>4,597,101</u>

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

Environmental Clean Technologies Limited
Statement of cash flows
For the half-year ended 31 December 2016

		Consolidated	
	Note	31 Dec 2016	31 Dec 2015
		\$	\$
Cash flows from operating activities			
Research and development tax incentive		1,524,471	-
Receipts from customers (inclusive of GST)		30,637	7,335
		1,555,108	7,335
Payments to suppliers and employees		(1,275,829)	(944,080)
Interest received		4,672	4,329
Interest and other finance costs paid		(162,189)	(1,166)
Net cash from/(used in) operating activities		121,762	(933,582)
Cash flows from investing activities			
Payments for property, plant and equipment		(780,619)	(7,301)
Net cash used in investing activities		(780,619)	(7,301)
Cash flows from financing activities			
Proceeds from issue of shares	12	883,937	577,736
Proceeds from borrowings		725,390	-
Repayment of borrowings		-	(322,752)
Net cash from financing activities		1,609,327	254,984
Net increase/(decrease) in cash and cash equivalents		950,470	(685,899)
Cash and cash equivalents at the beginning of the financial half-year		684,314	940,676
Cash and cash equivalents at the end of the financial half-year		<u>1,634,784</u>	<u>254,777</u>

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

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2016

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have a significant impact on the financial performance or position of the consolidated entity.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern

For the financial half-year ended 31 December 2016, the consolidated entity had an operating net loss of \$2,342,583, net cash inflows from operating activities of \$121,762, and net current liabilities at the reporting date of \$1,685,408. The consolidated entity does not currently have a significant source of operating revenue and is reliant upon receipt of the R&D Tax Incentive, raising of equity capital, and loans from third parties to meet its operating costs.

The ability 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 its business, 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:

- drawdowns against the loan facility per the agreement with Brevet Capital of New York, secured over the company's entitlements to available future R&D Tax Incentive receipts for which it has an Advance Finding and Overseas Ruling in relation to its Coldry project in India;
- facilitated exercise of listed options via mandated arrangements with financial service providers; and
- issuance of equity via ECT securities under ASX Listing Rule 7.1.

Based on the above and cash flow forecasts prepared, the directors are of the opinion that the company is well positioned to meet its objectives and obligations going forward and therefore that the basis upon which the financial statements are prepared is appropriate in the circumstances.

The financial statements indicate a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern. 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.

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2016

Note 2. Operating segments

Identification of reportable operating segments

The consolidated entity's operating segment is based on the internal reports that are reviewed and used by the Board of Directors (being the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. The consolidated entity operates predominantly in the environmental and energy industry, and a single geographic segment being Australia.

At regular intervals, the CODM is provided management information at a consolidated level for the entity's cash position, the carrying values of intangible assets and a cash forecast for the next twelve months of operation. On this basis, no segment information is included in these financial statements.

Note 3. Revenue

	Consolidated	
	31 Dec 2016	31 Dec 2015
	\$	\$
Interest	4,672	8,196
Other revenue	33,050	7,350
Revenue	<u>37,722</u>	<u>15,546</u>

Note 4. Other income

	Consolidated	
	31 Dec 2016	31 Dec 2015
	\$	\$
Research and development tax incentive	<u>953,114</u>	<u>571,819</u>

Note 5. Expenses

	Consolidated	
	31 Dec 2016	31 Dec 2015
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	1,439,108	1,280,163
Fixtures and fittings	993	489
Office equipment	1,307	850
Total depreciation	<u>1,441,408</u>	<u>1,281,502</u>
<i>Amortisation</i>		
Intellectual property	<u>240,000</u>	<u>240,000</u>
Total depreciation and amortisation	<u>1,681,408</u>	<u>1,521,502</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable	162,189	1,910
Unwinding of the discount on provisions	60,594	398,961
Finance costs expensed	<u>222,783</u>	<u>400,871</u>

Environmental Clean Technologies Limited
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31 December 2016

Note 6. Current assets - trade and other receivables

	Consolidated	
	31 Dec 2016	30 Jun 2016
	\$	\$
Other receivables	74,978	92,274
Research and development tax incentive receivable	1,004,667	1,556,315
	<u>1,079,645</u>	<u>1,648,589</u>
Loan to G. Fozard	25,000	25,000
	<u>1,104,645</u>	<u>1,673,589</u>

The research and development tax incentive receivable as at 30 June 2016 was subsequently received in December 2016.

Note 7. Non-current assets - property, plant and equipment

	Consolidated	
	31 Dec 2016	30 Jun 2016
	\$	\$
Plant and equipment - at cost	6,700,625	5,920,006
Less: Accumulated depreciation	(6,001,812)	(4,562,705)
	<u>698,813</u>	<u>1,357,301</u>
Fixtures and fittings - at cost	7,782	7,782
Less: Accumulated depreciation	(4,348)	(3,355)
	<u>3,434</u>	<u>4,427</u>
Office equipment - at cost	70,991	70,991
Less: Accumulated depreciation	(49,820)	(48,513)
	<u>21,171</u>	<u>22,478</u>
	<u>723,418</u>	<u>1,384,206</u>

Note 8. Current liabilities - trade and other payables

	Consolidated	
	31 Dec 2016	30 Jun 2016
	\$	\$
Trade payables	422,739	122,402
Other payables	155,675	326,472
	<u>578,414</u>	<u>448,874</u>

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2016

Note 9. Current liabilities - borrowings

	Consolidated	
	31 Dec 2016	30 Jun 2016
	\$	\$
Innovation Structured Finance Co., LLC Loan ('Brevet Loan')	<u>1,782,613</u>	<u>1,057,223</u>

The Brevet Loan balance at 30 June 2016 related to Tranche No.1 drawn under the original facility agreement on 2 February 2016. A further two tranches were drawn during the period. Tranche No. 2 was drawn under an extension to the original facility agreement and Tranche No. 3 was drawn under a new facility agreement that provides for further tranches of up to \$2 million in value. Each drawdown is made in line with the terms of the facility and are based on the accrued value of the anticipated AusIndustry Tax Incentive program for the 2017 financial year.

The loan balance relating to the first and second tranches under the original facility agreement was settled following the period end.

Note 10. Current liabilities - provisions

	Consolidated	
	31 Dec 2016	30 Jun 2016
	\$	\$
Annual leave	68,349	72,694
Deferred consideration - Matmor	<u>2,009,775</u>	<u>2,009,775</u>
	<u>2,078,124</u>	<u>2,082,469</u>

Deferred Consideration Liability - Matmor Assets

As part consideration for the acquisition of the Matmor asset, deferred consideration of \$3.5m cash was incurred. The timing of paying consideration up to the cash amount of \$3.5m to Matmor Steel is dependent upon if, and when, ESIOA and ESIOB series options ('ESI options') of the company are exercised as well as meeting various milestones. The consideration will become payable through combination of any of the following triggers, and at the amounts attributed to each trigger, until the liability has been satisfied:

- (a) 50% of proceeds received by ECT from exercise of ESI Options up to the cash amount of \$1m
- (b) A minimum of 15% of proceeds received by ECT from exercise of ESI Options thereafter
- (c) \$500,000 on signing of a binding contract for construction of Matmor Pilot Plant
- (d) \$500,000 on the Matmor Pilot Plant operations achieving an agreed steady state and conversion targets
- (e) \$1,000,000 on signing of a binding contract for construction of a commercial scale Matmor plant
- (f) First collection of revenue in any form from commercialisation of Matmor technology

In measuring the value of the liability, management have estimated when options will likely be exercised and when milestones will likely be achieved.

Perpetual Royalty Liability

In addition to the liability recognised related to the Matmor Asset, the company has incurred a future obligation to remit a perpetual royalty to Matmor Steel, the originator of the Matmor technology, at an amount calculated at 3% of Licensing Income received by the company after allowing for Deductions.

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2016

Note 11. Non-current liabilities - provisions

	Consolidated	
	31 Dec 2016	30 Jun 2016
	\$	\$
Long service leave	60,622	51,552
Earn-out provision	380,289	319,695
	<u>440,911</u>	<u>371,247</u>

Earn-out provision

The earn-out provision represents deferred consideration related to the acquisition of the Coldry intellectual property from the Maddingley Group. The consideration payable is calculated based on 50 cents per projected processed tonne of coal feedstock between 2017 and 2023 and is discounted at a rate of 41.5%. The consideration, estimated as payable through to 2023, is capped at \$3,000,000.

Movements in provisions

Movements in the earn-out provision during the current financial half-year are set out below:

	Earn-out provision \$
Consolidated - 31 Dec 2016	
Carrying amount at the start of the half-year	319,695
Unwinding of discount	60,594
Carrying amount at the end of the half-year	<u>380,289</u>

* The unwinding of the discount is recognised as part of finance costs

Note 12. Equity - issued capital

	Consolidated			
	31 Dec 2016	30 Jun 2016	31 Dec 2016	30 Jun 2016
	Shares	Shares	\$	\$
Ordinary shares - fully paid	2,806,350,073	2,733,211,506	60,816,640	60,084,680
Deferred share capital	25,000,000	-	225,000	-
	<u>2,831,350,073</u>	<u>2,733,211,506</u>	<u>61,041,640</u>	<u>60,084,680</u>

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2016

Note 12. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	No of shares	Issue price	\$
Balance	1 July 2016	2,733,211,506		60,084,680
Exercise of ESIOA options	8 September 2016	5,555,556	\$0.009	50,000
Exercise of ESIOA options	26 October 2016	6,427,223	\$0.009	57,845
Exercise of ESIOB options	26 October 2016	33,333	\$0.015	500
Exercise of ESIOA options	4 November 2016	15,888,889	\$0.009	143,000
Exercise of ESIOA options	11 November 2016	13,888,889	\$0.009	125,000
Exercise of ESIOA options	18 November 2016	13,000,000	\$0.009	117,000
Exercise of ESIOB options	18 November 2016	81,667	\$0.015	1,225
Exercise of ESIOA options	22 November 2016	9,000,000	\$0.009	81,000
Exercise of ESIOA options	23 November 2016	9,263,010	\$0.009	83,367
Transfer from reserves		-	\$0.000	73,023
Balance	31 December 2016	<u>2,806,350,073</u>		<u>60,816,640</u>

Movements in deferred share capital

Details	Date	No of shares	Issue price	\$
Balance	1 July 2016	-		-
Share issue - partly paid to the extent of \$0.009	23 November 2016	<u>25,000,000</u>	\$0.020	<u>225,000</u>
Balance	31 December 2016	<u>25,000,000</u>		<u>225,000</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and any proceeds on the realisation of net assets in the event of a winding up of the company in proportion having regard to the number of shares held and amounts paid thereon. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Deferred share capital

The account is used to recognise partly paid equity issued to employees that are subject to escrow and a deferred settlement arrangement. Refer to note 19 'Share based payments' for further information.

Note 13. Equity - reserves

	Consolidated	
	31 Dec 2016	30 Jun 2016
	\$	\$
Share-based payments reserve	24,644	15,643
Options reserve	<u>4,069,098</u>	<u>4,142,121</u>
	<u>4,093,742</u>	<u>4,157,764</u>

Options reserve

The options reserve is used to recognise the value of options issued.

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2016

Note 13. Equity - reserves (continued)

Movements in reserves

Movements in each class of reserve during the current financial half-year are set out below:

	Share-based payments	Unlisted options*	ESIOA** Options	ESIOB*** Options	Total
Consolidated	\$	\$	\$	\$	\$
Balance at 1 July 2016	15,643	1,136,020	1,216,682	1,789,419	4,157,764
Exercise of options	-	-	(73,023)	-	(73,023)
Share based payments	9,001	-	-	-	9,001
Balance at 31 December 2016	<u>24,644</u>	<u>1,136,020</u>	<u>1,143,659</u>	<u>1,789,419</u>	<u>4,093,742</u>

* Unlisted options have an exercise price of 1.5 cents and expire on 31 July 2018. There were 170,000,000 units on issue as at 31 December 2016.

** ESIOA options have an exercise price of 0.9 cents and expire on 31 July 2017. There were 1,143,690,463 units on issue as at 31 December 2016.

*** ESIOB options have an exercise price of 1.5 cents and expire on 31 July 2017. There were 857,988,905 units on issue as at 31 December 2016.

Note 14. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Note 15. Fair value measurement

The carrying values of financial assets and financial liabilities presented in these financial statements represent a reasonable approximation of fair value unless otherwise stated.

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 Dec 2016	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<i>Liabilities</i>				
Deferred consideration - Matmor Assets	-	2,009,775	-	2,009,775
Earn-out provision - Coldry IP	-	-	380,289	380,289
Total liabilities	-	2,009,775	380,289	2,390,064

Consolidated - 30 Jun 2016	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<i>Liabilities</i>				
Deferred consideration - Matmor Assets	-	2,009,775	-	2,009,775
Earn-out provision - Coldry IP	-	-	319,695	319,695
Total liabilities	-	2,009,775	319,695	2,329,470

There were no transfers between levels during the financial half-year.

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2016

Note 15. Fair value measurement (continued)

The carrying amounts of trade and other receivables and trade and other payables approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the forecast cash flows required to discharge the liability at the current market interest rate that is available for similar financial liabilities. Movements in the fair value of the financial liabilities are disclosed in the respective notes.

Valuation techniques for fair value measurements categorised within level 2 and level 3

The above financial liabilities have been valued using a discounted cash flow model. Refer to the respective notes for further details.

Level 3 liabilities

Movements in level 3 assets and liabilities during the current financial half-year are set out below:

Consolidated	Earn-out provision \$	Total \$
Balance at 1 July 2016	319,695	319,695
Interest unwind	60,594	60,594
Balance at 31 December 2016	<u>380,289</u>	<u>380,289</u>

The directors believe that the fair value of the earn-out provision would not materially change should there be changes in the unobservable inputs related to timing of anticipated future cash outflows which were used to determine the carrying value at period-end.

Note 16. Related party transactions

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated 31 Dec 2016 \$
Other transactions:	
Exercise of options for new ordinary shares by key management personnel	150,000
Share based payments expense - key management personnel	9,002

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated 31 Dec 2016 \$	30 Jun 2016 \$
Current receivables:		
Loans to directors - G. Fozard	25,000	25,000

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2016

Note 17. Events after the reporting period

Following the receipt of the 2015-2016 R&D Tax Incentive refund of \$1,524,471 on 21 December 2016, the company repaid the Brevet loan facility of \$1,464,965 on 10 January 2017.

The company drew down \$360,000 of the new Brevet loan facility during January 2017.

AusIndustry granted the company's application for an Advance Finding and Overseas ruling in relation to the Coldry activities planned under its India project. Under R&D Tax Incentive legislation, companies must seek prior approval before claiming overseas expenditure. The estimated value to the company based on the current project budget is approximately \$10 million. The company is in the process of submitting its application for an Advance Finding and Overseas Ruling in relation to the Matmor component of the India project.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 18. Earnings per share

	Consolidated	
	31 Dec 2016	31 Dec 2015
	\$	\$
Loss after income tax attributable to the owners of Environmental Clean Technologies Limited	<u>(2,342,583)</u>	<u>(1,893,959)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>2,760,338,406</u>	<u>2,570,707,611</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>2,760,338,406</u>	<u>2,570,707,611</u>
	Cents	Cents
Basic earnings per share	(0.08)	(0.07)
Diluted earnings per share	(0.08)	(0.07)

At 31 December 2016 there were 1,143,690,463 ESIOA series options, 857,988,905 ESIOB series options and 170,000,000 unlisted options on issue over ordinary shares. These options were considered anti-dilutive and excluded from the calculation above.

Note 19. Share-based payments

During the period, the company engaged the services of Mr Jim Blackburn to fill the role of Chief Operating Officer of the company. Mr Blackburn acquired an interest in 25,000,000 shares issued at \$0.02 each. Total consideration paid was \$225,000 with the remaining \$275,000 balance deferred and subject to a proportionate settlement over the period of the loan, such settlement deemed to occur as Mr Blackburn fulfils his employment over the duration of 3 years. As such, amortisation of the deferred component forms part of Mr Blackburn's remuneration over the period of the arrangement.

The shares issued are subject to a lock-up from the date of issue for a term of 3 years, or, in the event that Mr Blackburn's employment terminates, upon a cash settlement of the unamortised principal balance.

The 3 year arrangement represents a vesting term that must be completed before Mr Blackburn becomes beneficially entitled to control the shares. The fair value of the deferred settlement component at grant date was \$246,779, calculated as the present value of the deferred principle outstanding discounted at an interest rate of 6.5%. An amount of \$9.001 was incurred as a share based payment expense representing the amortisation of the settlement amount for the period

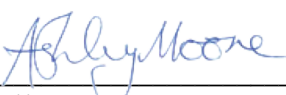
Environmental Clean Technologies Limited
Directors' declaration
31 December 2016

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



Ashley Moore
Managing Director

28 February 2017
Melbourne

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Environmental Clean Technologies Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Environmental Clean Technologies Limited, which comprises the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 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.

Conclusion

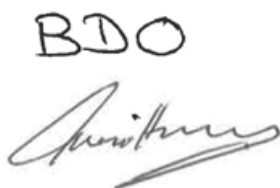
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Environmental Clean Technologies Limited is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to 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 consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

BDO East Coast Partnership



Wai Aw
Partner

Melbourne, 28 February 2017