

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 2017
Previous period:	For the half-year ended 31 December 2016

2. Results for announcement to the market

			\$
Revenues from ordinary activities	down	11.6% to	33,355
Loss from ordinary activities after tax attributable to the owners of Environmental Clean Technologies Limited	up	16.8% to	(2,735,577)
Loss for the half-year attributable to the owners of Environmental Clean Technologies Limited	up	16.8% to	(2,735,577)

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 \$2,735,577 (31 December 2016: \$2,342,583).

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>0.02</u>	<u>(0.04)</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.

Environmental Clean Technologies Limited
Appendix 4D
Half-year report

7. Dividend reinvestment plans

The following dividend or distribution plans are in operation:

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%	-	-
<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			-	-

Coldry East Kalimantan Pty Ltd was deregistered during the period. 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 includes an emphasis of matter relating to going concern, is attached as part of the Interim Report.

11. Attachments

Details of attachments (if any):

The Interim Report of Environmental Clean Technologies Limited for the half-year ended 31 December 2017 is attached.

12. Signed

Signed  _____

Glenn Fozard
Executive Chairman
Melbourne

Date: 28 February 2018

Environmental Clean Technologies Limited

ABN 28 009 120 405

Interim Report - 31 December 2017

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Environmental Clean Technologies Limited

Directors' report

31 December 2017

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 2017.

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 (resigned 17 October 2017)
Barry Richards
David Smith

Ashley Moore remains as a key management person within the consolidated entity, having been appointed as Chairman and Managing Director of ECT India Ltd, a subsidiary of the Company.

Principal activities

During the financial period, the principal continuing activities of the consolidated entity consisted of continued 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 principal activities included:

- advancement of the integrated Coldry-Matmor project with NLC India Limited and NMDC Limited, in Neyveli, India;
- development of a large-scale demonstration project proposal for the Coldry technology in Latrobe Valley, Victoria;
- continued implementation of research, development and commercialisation programs at the Company's Bacchus Marsh High Volume Test Facility, Victoria; and
- managing the development of, and extracting value from, the consolidated entity's intellectual property.

Coldry process

The Coldry process is a low temperature, low pressure and therefore a low-cost method of de-watering low-rank coal to produce an upgraded black coal equivalent solid fuel. 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 solid fuel 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 can enable numerous higher value upgrading applications such as coal to oil, gas, hydrogen 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 specific application of shear stress resulting in 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.

Environmental Clean Technologies Limited

Directors' report

31 December 2017

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 1000C, compared to a blast furnace which operates at around 1500C. 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 2016, the Company submitted a new Australian provisional patent application on an improved Metal Oxide Reduction process, HydroMOR. The provisional patent progressed to PCT phase in November 2017. 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 derive 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.

Equity Lending Facility

During the period, ECT Finance, a subsidiary of ECT Ltd, offered Equity Lending Facility (ELF) loans to holders of ESIOA and ESIOB options, for the sole purpose of financing the exercise of these options and conversion into Fully Paid Ordinary ESI shares. As announced on 1 August 2017, ECT Finance approved approximately \$14.1M worth of ELF loans. During the reporting period, ECT Finance has received \$90,914 in principal and interest payments and from 1 January 2018 to the date of this report, has received additional payments of approximately \$120,000. Cashflows raised through repayment of principle and interest over the loan period will be available to ECT to finance ongoing working capital.

The security value of the loan book of \$14.1M currently stands at \$11.9M (based on a 1.0c share price). The loans are scheduled to expire on 31 July 2020 and interest rates across each of the loans can vary according to payment methods.

Although for accounting purposes the ELF loans are treated differently, both legally and commercially they remain loans owed to ECT Finance.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$2,735,577 (31 December 2016: \$2,342,583).

Environmental Clean Technologies Limited
Directors' report
31 December 2017

Cash operating expenses (Total expenses less non-cash finance costs, movement in earn-out provision and depreciation and amortisation expense) was higher at \$2,966,404 (31 Dec 2016: \$1,591,417), an increase of \$1,374,987 or 86%.

Total expenses increased, driven by engineering and corporate costs related to the preparation of the India project, and upgrade of the HVTF facility. While non-cash items contribute to the total loss for the period, the depreciation adds 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.

Matters subsequent to the end of the financial half-year

(i) New R&D Rebate loan with Brevet

On 8 January 2018, the Company signed a term sheet for a new R&D Rebate loan facility with its existing debt provider, New York-based Innovation Structured Finance Co. LLC (Brevet) through to January 2020 in support of the Company's India project.

The loan facility allows for the provision of funding to the Company of up to \$14 million. The Company's R&D rebate received represents the security for the facility. The defaults and covenants contained within the term sheet are typical of those that may be expected for a facility of this type. The funding secures the Company's anticipated contribution to the Master Project Agreement (MPA) relating to the Coldry-Matmor integrated project in India.

(ii) Receipt of R&D Tax Incentive and repayment of December 2017 Brevet loan balance

On 17 January 2018, the Company received the full amount of the R&D Tax Incentive receivable recognised in the financial statements at 30 June 2017. Of the \$2.047m received, \$1.447m was utilised to fully repay the Brevet loan balance recognised at 31 December 2017.

No other matter or circumstance has arisen since 31 December 2017 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



Glenn Fozard
Executive Chairman

28 February 2018
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 2017, 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 2018

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Environmental Clean Technologies Limited
Contents
31 December 2017

Statement of profit or loss and other comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	10
Directors' declaration	22
Independent auditor's review report to the members of Environmental Clean Technologies Limited	23

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:

388 Punt Road
South Yarra, Victoria, 3141
Australia

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 2018. 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 2017

	Note	Consolidated	Consolidated
		31 Dec 2017	31 Dec 2016
		\$	\$
Revenue	3	33,355	37,722
Other income	4	924,827	953,114
Expenses			
Corporate costs		(771,829)	(445,755)
Legal costs		(49,324)	(85,052)
Employee benefits expense		(698,701)	(483,499)
Sales and marketing		(51,546)	(53,553)
Depreciation and amortisation expense	5	(429,519)	(1,681,408)
Engineering and design costs		(1,105,295)	(258,683)
Occupancy expense		(103,599)	(56,147)
Travel and accommodation		(72,139)	(46,539)
Finance costs	5	(411,807)	(222,783)
Loss before income tax expense		(2,735,577)	(2,342,583)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Environmental Clean Technologies Limited		(2,735,577)	(2,342,583)
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>(2,735,577)</u>	<u>(2,342,583)</u>
		Cents	Cents
Basic earnings per share	19	(0.08)	(0.08)
Diluted earnings per share	19	(0.08)	(0.08)

Environmental Clean Technologies Limited
Statement of financial position
As at 31 December 2017

	Note	Consolidated 31 Dec 2017 \$	30 Jun 2017 \$
Assets			
Current assets			
Cash and cash equivalents		1,248,484	588,682
Trade and other receivables	6	3,023,822	2,327,203
Other		45,294	55,813
Total current assets		<u>4,317,600</u>	<u>2,971,698</u>
Non-current assets			
investments accounted for using the equity method		2	2
Property, plant and equipment	7	446,087	455,637
Intangibles	8	5,575,505	5,760,000
Total non-current assets		<u>6,021,594</u>	<u>6,215,639</u>
Total assets		<u>10,339,194</u>	<u>9,187,337</u>
Liabilities			
Current liabilities			
Trade and other payables	9	523,960	1,711,277
Borrowings	10	1,495,192	1,483,257
Provisions		70,064	86,175
Total current liabilities		<u>2,089,216</u>	<u>3,280,709</u>
Non-current liabilities			
Borrowings		113,844	73,930
Provisions	11	1,907,964	1,138,066
Total non-current liabilities		<u>2,021,808</u>	<u>1,211,996</u>
Total liabilities		<u>4,111,024</u>	<u>4,492,705</u>
Net assets		<u>6,228,170</u>	<u>4,694,632</u>
Equity			
Issued capital	12	69,852,315	63,371,602
Reserves	13	1,226,934	3,876,010
Accumulated losses	14	(64,851,079)	(62,552,980)
Total equity		<u>6,228,170</u>	<u>4,694,632</u>

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

Environmental Clean Technologies Limited
Statement of changes in equity
For the half-year ended 31 December 2017

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	225,000	-	-	225,000
Share-based payments (note 20)	-	9,001	-	9,001
Exercised options net of adjustments	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>
	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Consolidated				
Balance at 1 July 2017	63,371,602	3,876,010	(62,552,980)	4,694,632
Loss after income tax expense for the half-year	-	-	(2,735,577)	(2,735,577)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(2,735,577)	(2,735,577)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (note 20)	53,199	-	-	53,199
Shares issued on exercise of options	4,125,002	-	-	4,125,002
Transfer option premiums on exercised options net of adjustments	2,302,512	(2,302,512)	-	-
Option premium received	-	90,914	-	90,914
Transfer option premium (expired options)	-	(437,478)	437,478	-
Balance at 31 December 2017	<u>69,852,315</u>	<u>1,226,934</u>	<u>(64,851,079)</u>	<u>6,228,170</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 2017

	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$	\$
Cash flows from operating activities		
Research and development tax incentive	-	1,524,471
Receipts from customers (inclusive of GST)	239,686	30,637
	<u>239,686</u>	<u>1,555,108</u>
Payments to suppliers and employees	(3,516,172)	(1,275,829)
Interest received	25	4,672
Interest and other finance costs paid	(113,971)	(162,189)
	<u>(3,390,432)</u>	<u>121,762</u>
Net cash from/(used in) operating activities		
Cash flows from investing activities		
Payments for property, plant and equipment	(150,696)	(780,619)
Payments for intangibles	(55,505)	-
Proceeds from disposal of property, plant and equipment	25,000	-
	<u>(181,201)</u>	<u>(780,619)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from issue of shares	4,088,672	883,937
Proceeds from issue of options	90,914	-
Proceeds from borrowings	1,421,262	725,390
Repayment of borrowings	(1,369,413)	-
	<u>4,231,435</u>	<u>1,609,327</u>
Net cash from financing activities		
Net increase in cash and cash equivalents	659,802	950,470
Cash and cash equivalents at the beginning of the financial half-year	588,682	684,314
	<u>1,248,484</u>	<u>1,634,784</u>
Cash and cash equivalents at the end of the financial half-year		

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 2017

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 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 2017 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 2017, the consolidated entity had an operating net loss of \$2,735,577 (31 Dec 2016: net loss of \$2,342,583), net cash outflows from operating activities of \$3,390,432 (31 Dec 2016: net cash inflows of \$121,762), and net current assets at the reporting date of \$2,228,384 (30 Jun 2017: net current liabilities of \$309,011). 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;
- issuance of equity via ECT securities under ASX Listing Rule 7.1;
- principal and interest payments from the Equity Lending Facility; and
- sale of product from the high volume test facility at Bacchus Marsh.

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 assets or to the amounts and classification of liabilities should the consolidated entity not continue as a going concern.

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2017

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 2017	31 Dec 2016
	\$	\$
<i>Sales revenue</i>		
Sales of product	33,330	-
<i>Other revenue</i>		
Interest	25	4,672
Other revenue	-	33,050
	<u>25</u>	<u>37,722</u>
Revenue	<u>33,355</u>	<u>37,722</u>

Note 4. Other income

	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$	\$
Net gain on disposal of property, plant and equipment	25,000	-
Research and development tax incentive	816,983	953,114
Other income	82,844	-
	<u>924,827</u>	<u>953,114</u>
Other income	<u>924,827</u>	<u>953,114</u>

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2017
Note 5. Expenses

	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	181,019	1,439,108
Fixtures and fittings	2,048	993
Office equipment	6,452	1,307
Total depreciation	<u>189,519</u>	<u>1,441,408</u>
<i>Amortisation</i>		
Intellectual property	<u>240,000</u>	<u>240,000</u>
Total depreciation and amortisation	<u>429,519</u>	<u>1,681,408</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable	113,971	162,189
Unwinding of the discount related to earn-out provision - Coldry	153,242	60,594
Unwinding of the discount on deferred cash consideration - Matmor	144,594	-
Finance costs expensed	<u>411,807</u>	<u>222,783</u>

Note 6. Current assets - trade and other receivables

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$	\$
Trade receivables	<u>12,415</u>	<u>81,019</u>
Other receivables	41,042	61,714
Research and development tax incentive receivable	<u>2,864,122</u>	<u>2,047,139</u>
	<u>2,905,164</u>	<u>2,108,853</u>
Director loan - Glenn Fozard	5,000	14,000
GST receivable	<u>101,243</u>	<u>123,331</u>
	<u><u>3,023,822</u></u>	<u><u>2,327,203</u></u>

Research and development receivable

The research and development tax incentive receivable as at 30 June 2017 was subsequently received in January 2018.

Director loan

Director, Glenn Fozard, repaid \$9,000 of his loan during the period.

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2017
Note 7. Non-current assets - property, plant and equipment

	Consolidated			
	31 Dec 2017	30 Jun 2017		
	\$	\$		
Plant and equipment - at cost	6,880,624	7,196,684		
Less: Accumulated depreciation	(6,452,344)	(6,756,098)		
	<u>428,280</u>	<u>440,586</u>		
Fixtures and fittings - at cost	15,418	7,782		
Less: Accumulated depreciation	(7,822)	(5,774)		
	<u>7,596</u>	<u>2,008</u>		
Office equipment - at cost	76,973	73,353		
Less: Accumulated depreciation	(66,762)	(60,310)		
	<u>10,211</u>	<u>13,043</u>		
	<u><u>446,087</u></u>	<u><u>455,637</u></u>		
Consolidated	\$	\$	\$	\$
Balance at 1 July 2017	440,586	2,008	13,043	455,637
Additions	168,713	7,636	3,620	179,969
Depreciation expense	(181,019)	(2,048)	(6,452)	(189,519)
Balance at 31 December 2017	<u><u>428,280</u></u>	<u><u>7,596</u></u>	<u><u>10,211</u></u>	<u><u>446,087</u></u>

Note 8. Non-current assets - intangibles

	Consolidated			
	31 Dec 2017	30 Jun 2017		
	\$	\$		
Intellectual property - at cost	9,600,000	9,600,000		
Less: Accumulated amortisation	(4,080,000)	(3,840,000)		
	<u>5,520,000</u>	<u>5,760,000</u>		
Software - at cost	55,505	-		
	<u><u>5,575,505</u></u>	<u><u>5,760,000</u></u>		
Consolidated	\$	\$	\$	\$
Balance at 1 July 2017	-	5,760,000	5,760,000	5,760,000
Additions	55,505	-	55,505	55,505
Amortisation expense	-	(240,000)	(240,000)	(240,000)
Balance at 31 December 2017	<u><u>55,505</u></u>	<u><u>5,520,000</u></u>	<u><u>5,575,505</u></u>	<u><u>5,575,505</u></u>

The intellectual property represents the patented technology related to Coldry acquired by the consolidated entity in 2009. Software is being developed and not yet available for use.

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2017
Note 9. Current liabilities - trade and other payables

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$	\$
Trade payables	124,953	302,557
Other payables	399,007	1,408,720
	<u>523,960</u>	<u>1,711,277</u>

Note 10. Current liabilities - borrowings

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$	\$
Innovation Structured Finance Co. (Brevet Capital)	1,421,262	1,332,448
Equipment finance	73,930	150,809
	<u>1,495,192</u>	<u>1,483,257</u>

The Brevet Loan balance relates to a facility agreement that provides for tranches of up to \$2 million in value to be drawn by the Company. Each drawdown is made in line with the terms of the facility and is based on the accrued value of the anticipated AusIndustry Tax Incentive program for the respective financial year.

Upon receipt of the R&D Tax Incentive recognised as a receivable at reporting date, the full amount of the Brevet loan was settled in January 2018.

Refer to Note 18 'Events after the reporting date' for details of a revised loan facility with Brevet Capital executed subsequent to reporting date.

Note 11. Non-current liabilities - provisions

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$	\$
Long service leave	55,864	68,926
Earn-out provision - Coldry	675,388	522,146
Deferred consideration - Matmor	1,176,712	546,994
	<u>1,907,964</u>	<u>1,138,066</u>

Earn-out provision - Coldry

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 \$0.50 per projected processed tonne of Coldry pellets and is discounted at a rate of 32.5% (30 June 2017: 35%). The total consideration payable is \$3,000,000.

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2017
Note 11. Non-current liabilities - provisions (continued)
Deferred consideration - Matmor

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 was dependent upon if, and when, ESIOA and ESIOB series options ('ESI options') of the Company were exercised as well as meeting various milestones. The consideration becomes 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 cash 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 milestones will likely be achieved. At each reporting date, the deferred consideration liability is reassessed against revised estimates and any increase or decrease in the net present value of the liability will result in a corresponding gain or loss to profit or loss. The increase in the liability resulting from the passage of time or the change in discount rate is recognised as a finance cost. The discount rate used is 15% (30 June 2017: 35%). The movement in the discount rate includes the estimated reduction in risk implicit in future cash flows.

Movements in provisions

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

Consolidated - 31 Dec 2017	Deferred consideration (Matmor) \$	Earn-out provision (Coldry) \$
Carrying amount at the start of the half-year	546,994	522,146
Amounts reinstated from current liabilities	995,116	-
Payments	(385,116)	-
Unwinding of discount	144,594	153,242
Transfer to payables	(124,876)	-
Carrying amount at the end of the half-year	<u>1,176,712</u>	<u>675,388</u>

* The unwinding of the discount is recognised as part of finance costs. Refer to Note 17 for information relating to the fair value of these financial liabilities.

Note 12. Equity - issued capital

	Consolidated			
	31 Dec 2017 Shares	30 Jun 2017 Shares	31 Dec 2017 \$	30 Jun 2017 \$
Ordinary shares - fully paid	3,417,496,119	3,021,847,103	69,511,916	63,084,402
Deferred share capital	25,000,000	25,000,000	340,399	287,200
Loan funded shares	1,188,020,273	-	-	-
	<u>4,630,516,392</u>	<u>3,046,847,103</u>	<u>69,852,315</u>	<u>63,371,602</u>

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2017
Note 12. Equity - issued capital (continued)
Movements in ordinary share capital

Details	Date	No of shares	Issue price	\$
Balance	1 July 2017	3,021,847,103		63,084,402
Exercise of ESIOA options	period to 31 Dec 2017	921,505,742	\$0.009	8,293,552
Exercise of ESIOB options	period to 31 Dec 2017	662,163,547	\$0.015	9,932,455
Transfer from reserves - exercised options		-	\$0.000	2,302,512
Derecognition of ELF Shares issued pursuant to limited recourse loan arrangements (Note 13)		(1,188,020,273)	\$0.000	(14,101,005)
Balance	31 December 2017	<u>3,417,496,119</u>		<u>69,511,916</u>

Movements in deferred share capital

Details	Date	No of shares	Issue price	\$
Balance	1 July 2017	25,000,000		287,200
Equity contribution	period to 31 Dec 2017	-	\$0.002	53,199
Balance	31 December 2017	<u>25,000,000</u>		<u>340,399</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 20 'Share based payments' for further information.

Options issued

Details of options issued by the Company are contained in Note 13.

Note 13. Equity - reserves

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$	\$
Options reserve	<u>1,226,934</u>	<u>3,876,010</u>

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2017
Note 13. Equity - reserves (continued)

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

ESIOA, ESIOB and ESIOC options

Details of options on issue are as follows:

- 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 2017 with a recognised value of \$1,136,020.
- ESIOA options had an exercise price of 0.9 cents and expired on 31 July 2017. As at the date of expiry, there were 29,221,060 unexercised options on hand. The value of unexercised options was transferred to accumulated losses during the period.
- ESIOB options had an exercise price of 1.5 cents and expired on 31 July 2017. As at the date of expiry, there were 173,291,989 unexercised options on hand. The value of unexercised options was transferred to accumulated losses during the period.
- ESIOC options were issued to shareholders as a bonus issue (nil consideration). The number of ESIOC options on issue at 31 December 2017 was 846,088,751. The recognised value of ESIOC options at 31 December 2017 was \$nil.

Equity Lending Facility options (ELF Options)

The consolidated entity's subsidiary, ECT Finance Ltd, entered into limited recourse loans with option-holders (Participants) during the period allowing them to obtain finance to exercise ESIOA and ESIOB share options. Shares were issued on exercise of options in accordance with the Loan and Security Agreement (the Agreement) of the Equity Lending Facility (ELF). Receipts from Participants are treated as equity contributions. Loans expire in 3 years and interest is charged at commercial rates.

All shares issued pursuant to the ELF and financed by limited recourse loans are considered, for accounting purposes, to be options issued (ELF Options). As a result, neither the value of the loans receivable, nor the value of shares issued, are recognised in the financial statements. The face value of limited recourse loans issued at reporting date was \$14,101,005. There are 1,188,020,273 shares held in escrow against these loans. Where the Company receives funds from Participants in the form of principal or interest, such amounts are treated as the receipt of option premium and recognised in the option reserve.

Notwithstanding any other provision of the ELF, each Participant has a legal and beneficial interest in the ELF Shares issued to them except that any dealings with those ELF Shares by the Participant is restricted in accordance with the Agreement. ELF Shares rank equally with all existing ordinary shares of the Company from the date of issue in respect of all rights issues, bonus issues, dividends and other distributions to, or entitlements of, ordinary shareholders. On termination of the loan facility, the Participant may elect to settle the loan or default on the loan and the Company would enforce the return of the ELF Shares back to the Company, subject to requirements of the Corporations Act and as outlined in the Agreement signed by each borrower.

Movements in reserves

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

	Share-based payments	ELF options	Unlisted options	ESIOA Options	ESIOB Options	Total
Consolidated	\$	\$	\$	\$	\$	\$
Balance at 1 July 2017	-	-	1,136,020	950,571	1,789,419	3,876,010
Exercise of options	-	-	-	(921,506)	(1,381,006)	(2,302,512)
Receipt of premium	-	90,914	-	-	-	90,914
Share based payments expense	53,199	-	-	-	-	53,199
Transfer to partly paid share capital	(53,199)	-	-	-	-	(53,199)
Expiry of options	-	-	-	(29,065)	(408,413)	(437,478)
Balance at 31 December 2017	-	90,914	1,136,020	-	-	1,226,934

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2017

Note 14. Equity - accumulated losses

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$	\$
Accumulated losses at the beginning of the financial half-year	(62,552,980)	(58,195,698)
Loss after income tax expense for the half-year	(2,735,577)	(4,357,282)
Transfer from options reserve	437,478	-
	<u>(64,851,079)</u>	<u>(62,552,980)</u>

Note 15. Equity - dividends

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

Note 16. 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

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Consolidated - 31 Dec 2017				
<i>Liabilities</i>				
Deferred consideration - Matmor Assets	-	1,176,712	-	1,176,712
Earn-out provision - Coldry IP	-	-	675,388	675,388
Total liabilities	<u>-</u>	<u>1,176,712</u>	<u>675,388</u>	<u>1,852,100</u>
Consolidated - 30 Jun 2017				
<i>Liabilities</i>				
Deferred consideration - Matmor Assets	-	546,994	-	546,994
Earn-out provision - Coldry IP	-	-	522,146	522,146
Total liabilities	<u>-</u>	<u>546,994</u>	<u>522,146</u>	<u>1,069,140</u>

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

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.

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2017

Note 16. Fair value measurement (continued)

Level 3 liabilities

Movements in level 3 liabilities during the current financial half-year are as follows:

Consolidated	Earn-out provision \$	Total \$
Balance at 1 July 2017	522,146	522,146
Unwind of interest discount	153,242	153,242
Balance at 31 December 2017	<u>675,388</u>	<u>675,388</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 17. Related party transactions

Parent entity

Environmental Clean Technologies Limited is the parent entity.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated 31 Dec 2017 \$	31 Dec 2016 \$
Payment for goods and services:		
Payment for services from other related party *	169,873	-
Other transactions:		
Exercise of options for new ordinary shares by key management personnel	-	150,000
Payments made to Company pursuant to Equity Lending Facility by key management personnel	10,733	-
Share based payments expense - key management personnel	53,199	9,002

* During the period, the Company paid Mecrus, an entity associated with Barry Richards, for engineering support services during the period. Such payments were on commercial terms.

Loan funded share acquisitions by key management personnel

During the period, key management personnel (KMP) participated in the Equity Lending Facility administered by ECT Finance Ltd. Options held by such KMP were exercised and ordinary shares issued in the names of such KMP pursuant to the terms of the lending facility.

- Ashley Moore: loan amount \$339,249

- Glenn Fozard: loan amount \$450,000 (interest of \$10,733 was paid on this facility during the period as shown above which has been recognised within the ELF Shares account)

Employees and directors of the Company receive a 2% discount to the standard commercial interest rates.

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.

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2017
Note 17. Related party transactions (continued)
Loans to/from related parties

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

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$	\$
Current receivables:		
Loans to directors - G. Fozard	5,000	14,000

During the period, the following loans advanced by the Company to a director or director related entity were on issue:

Glenn Fozard has a loan outstanding with the Company which was originally used for the acquisition of 50 million options. Interest incurred during the period was \$360. An amount of \$9,000 was repaid during the period. The loan was due for repayment on 5 August 2015. Per the terms of the Loan Agreement, additional interest of 3% p.a. over the base interest of 6% p.a. is applicable until the loan is satisfied. Options remain in escrow to the extent that there is any principal or interest remaining unpaid on each loan.

Note 18. Events after the reporting period
(i) New R&D Rebate loan with Brevet

On 8 January 2018, the Company signed a term sheet for a new R&D Rebate loan facility with its existing debt provider, New York-based Innovation Structured Finance Co. LLC (Brevet) through to January 2020 in support of the Company's India project.

The loan facility allows for the provision of funding to the Company of up to \$14 million. The Company's R&D rebate received represents the security for the facility. The defaults and covenants contained within the term sheet are typical of those that may be expected for a facility of this type. The funding secures the Company's anticipated contribution to the Master Project Agreement (MPA) relating to the Coldry-Matmor integrated project in India.

(ii) Receipt of R&D Tax Incentive and repayment of December 2017 Brevet loan balance

On 17 January 2018, the Company received the full amount of the R&D Tax Incentive receivable recognised in the financial statements at 30 June 2017. Of the \$2.047m received, \$1.447m was utilised to fully repay the Brevet loan balance recognised at 31 December 2017.

No other matter or circumstance has arisen since 31 December 2017 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 19. Earnings per share

	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$	\$
Loss after income tax attributable to the owners of Environmental Clean Technologies Limited	<u>(2,735,577)</u>	<u>(2,342,583)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>3,376,821,600</u>	<u>2,760,338,406</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>3,376,821,600</u>	<u>2,760,338,406</u>

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2017

Note 19. Earnings per share (continued)

	Cents	Cents
Basic earnings per share	(0.08)	(0.08)
Diluted earnings per share	(0.08)	(0.08)

At 31 December 2017, the following anti-dilutive equity instruments were on issue and have been excluded from the calculation of diluted earnings per share :

- Unlisted options: 170,000,000 on issue at reporting date (exercise price \$0.025 and expiry 31 July 2018)
- ESIOC options: 846,088,751 on issue at reporting date (exercise price \$0.045 and expiry 31 July 2019)
- Loan Funded Shares: 1,188,020,273 on issue at reporting date

Note 20. Share-based payments

Mr Blackburn, the Company's Chief Operating Officer, acquired an interest in 25,000,000 shares issued at \$0.02 each (total consideration payable of \$500,000) partly funded by a Company loan which amounted to \$275,000 ('deferred amount'). The deferred amount is subject to a proportionate settlement over the period of the loan with such settlement deemed to occur as Mr Blackburn fulfils his employment over the duration of 3 years from the date of issue. 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 fair value of the deferred settlement component at grant date was \$246,779, calculated as the present value of the deferred principal outstanding discounted at an interest rate of 6.5%. An amount of \$53,199 (2016: \$9,001) was incurred as a share based payment expense representing the amortisation of the settlement amount for the period. As at reporting date, accumulated amortisation of the loan amounted to \$115,399.

Environmental Clean Technologies Limited
Directors' declaration
31 December 2017

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 2017 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



Glenn Fozard
Executive Chairman

28 February 2018
Melbourne

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Environmental Clean Technologies Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Environmental Clean Technologies Limited (the Company) and its subsidiaries (the Group), which comprises the statement of financial position as at 31 December 2017, 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 then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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 Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial 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 Group's ability to continue as a going concern and therefore the Group 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.

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 Group's financial position as at 31 December 2017 and its financial 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 the Group, ASRE

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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 the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO East Coast Partnership

BDO



**Wai Aw
Partner**

Melbourne, 28 February 2018

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