Interim Report to 31 December 2015

Friday, 26 February 2016: Environmental Clean Technologies Limited (ASX: ESI) (ECT or Company) is pleased to provide the following half-year report to shareholders.

Key Points

- Continued strong cost management
- Strong post-report period financial position

Managing Director, Ashley Moore stated "The Interim Report highlights the continued strong attention to financial management with cash operating cost 17% lower than the previous corresponding period. The subsequent receipt of the R&D Tax Incentive rebate of ~$1.1M and satisfaction of the primary Fast Finance debt facility of ~$1.5M via conversion to equity sees the Company enter the second half of the financial year in a strong position, supporting our pursuit of development objectives in India and Australia."

For further information, contact:

Ashley Moore – Managing Director *info@ectltd.com.au*

About ECT

ECT is in the business of commercialising leading-edge coal and iron making technologies, which are capable of delivering financial and environmental benefits.

We are focused on advancing a portfolio of technologies, which have significant market potential globally.

ECT's business plan is to pragmatically commercialise these technologies and secure sustainable, profitable income streams through licencing and other commercial mechanisms.

About Coldry

When applied to lignite and some sub-bituminous coals, the relatively simple Coldry beneficiation process produces a black coal equivalent (BCE) in the form of pellets. Coldry pellets have equal or superior energy value to many black coals and produce lower CO2 emissions than raw lignite.

About MATMOR

The MATMOR process has the potential to revolutionise primary iron making.

MATMOR is a simple, low cost, low emission, production technology, utilising the patented MATMOR retort, which enables the use of cheaper feedstocks to produce primary iron.

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 2015
Previous period:	For the half-year ended 31 December 2014

2. Results for announcement to the market

				$
Revenues from ordinary activities	up	101.4%	to	15,546
Loss from ordinary activities after tax attributable to the owners of Environmental Clean Technologies Limited	up	21.1%	to	(1,893,960)
Loss for the half-year attributable to the owners of Environmental Clean Technologies Limited	up	21.1%	to	(1,893,960)

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 $1,893,960 (31 December 2014: $1,563,917).

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	(0.01)	0.02

4. Control gained over entities

Name of entities (or group of entities)	Not Applicable
Date control gained	

	$
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)	-
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material)	-

5. Loss of control over entities

Name of entities (or group of entities)	Not Applicable
Date control lost	

	$
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)	-
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) whilst controlled during the whole of the previous period (where material)	-

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.

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

	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
Name of associate / joint venture	**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%	-	-
Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)				
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 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 2015 is attached.

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12. Signed

Signed ____________________ Date: 26 February 2016

Ashley Moore
Managing Director
Melbourne

Environmental Clean Technologies Limited

ABN 28 009 120 405

Interim Report - 31 December 2015

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 2015.

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 include:

- development of a large-scale demonstration project for the Coldry Process;
- advancement of the Matmor Process toward pilot scale; and
- managing the development and extracting value from 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.

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 degrees Celcius, compared to a blast furnace which operates at around 1500 degrees Celcius. 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 two Australian patents, 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.

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 $1,893,960 (31 December 2014: $1,563,917).

Cash operating expenses (Total expenses less non-cash finance costs, movement in earn-out provision and depreciation and amortisation expense) was lower at $1,047,408 (2014: $1,259,455), a reduction of $212,047 or 17%. Total expenses increased, driven by the non-cash item of depreciation but which was partially offset by the reduction in the earn-out provision. While these 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.

Legal expense was reduced for the period compared to the comparative period, mainly due to the non-repeating nature of the Matmor acquisition which occurred in December 2014. Increases in travel expense were offset by reductions in other expense areas.

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.

Matters subsequent to the end of the financial half-year
On 19 January 2016, the company secured a binding agreement to proceed with project development activities for its Coldry and Matmor technologies with India’s national lignite authority, Neyveli Lignite Corporation and India’s largest iron ore miner, NMDC.

On 20 January 2016, 75,253,967 ordinary shares were issued raising $1,503,971. This was a result of the exercise of 166,667 ESIOA options at $0.009 each, 25,000 ESIOB options at $0.015 each, and the issue of 75,062,300 ordinary shares at $0.02 in satisfaction of the primary Fast Finance debt facility which had a carrying value of $1,501,246 at 31 December 2015, leaving $300,000 which expires on 27 April 2016.

During January 2016, the company received a R&D Tax Incentive refund of $1,114,594 relating to the 2015 financial year.

On 2 February 2016, the company finalised a loan facility agreement with Innovation Structured Finance Co., LLC, a specialty finance company established by Brevet Capital, a New York City based investment manager. The Brevet facility is a senior secured loan, established on commercial terms, and provides short-term flexibility to draw down against the company's current accrued R&D Tax Incentive refund for the 2016 financial year, now estimated to be more than $1.2 million.

No other matter or circumstance has arisen since 31 December 2015 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 on the following page.

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

26 February 2016
Melbourne

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DECLARATION OF INDEPENDENCE BY ALEX SWANSSON 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 2015, 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.

Alex Swansson
Partner

BDO East Coast Partnership

Melbourne, 26 February 2016

Contents

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 26 February 2016. The directors have the power to amend and reissue the financial statements.

		Consolidated	
	Note	31 Dec 2015 $	31 Dec 2014 $
Revenue	4	15,546	7,720
Other income	5	571,819	564,866
Expenses			
Corporate costs		(435,196)	(458,628)
Legal costs		-	(90,913)
Employee benefits expense		(358,058)	(388,545)
Sales and marketing		(65,310)	(93,213)
Depreciation and amortisation expense	6	(1,521,502)	(375,476)
Engineering and design costs		(57,224)	(132,045)
Occupancy expense		(72,575)	(72,156)
Travel and accommodation		(57,135)	(23,965)
Movement in earn-out provision	12	486,546	-
Finance costs	6	(400,871)	(501,562)
Loss before income tax expense		(1,893,960)	(1,563,917)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Environmental Clean Technologies Limited		(1,893,960)	(1,563,917)
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		(1,893,960)	(1,563,917)
		Cents	Cents
Basic earnings per share	19	(0.07)	(0.07)
Diluted earnings per share	19	(0.07)	(0.07)

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

	Note	Consolidated 31 Dec 2015 $	Consolidated 30 Jun 2015 $
Assets			
Current assets			
Cash and cash equivalents		254,777	940,676
Trade and other receivables	7	1,755,416	1,169,273
Other		16,431	20,359
Total current assets		2,026,624	2,130,308
Non-current assets			
Investments accounted for using the equity method		2	2
Property, plant and equipment	8	2,427,256	3,702,887
Intangibles	9	6,480,000	6,720,000
Total non-current assets		8,907,258	10,422,889
Total assets		10,933,882	12,553,197
Liabilities			
Current liabilities			
Trade and other payables		428,161	232,530
Borrowings	10	1,768,878	1,644,656
Provisions	11	2,020,356	2,625,401
Total current liabilities		4,217,395	4,502,587
Non-current liabilities			
Provisions	12	385,775	869,444
Total non-current liabilities		385,775	869,444
Total liabilities		4,603,170	5,372,031
Net assets		6,330,712	7,181,166
Equity			
Issued capital	13	58,831,801	57,051,403
Reserves	14	3,350,502	4,087,394
Accumulated losses		(55,851,591)	(53,957,631)
Total equity		6,330,712	7,181,166

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

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2014	54,837,275	-	(50,241,455)	4,595,820
Loss after income tax expense for the half-year	-	-	(1,563,917)	(1,563,917)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(1,563,917)	(1,563,917)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	1,114,130	-	-	1,114,130
Issued options	-	4,028,700	-	4,028,700
Balance at 31 December 2014	55,951,405	4,028,700	(51,805,372)	8,174,733

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	-	-	(1,893,960)	(1,893,960)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(1,893,960)	(1,893,960)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 13)	1,780,398	-	-	1,780,398
Issued Options (note 14)	-	20,000	-	20,000
Exercised options net of adjustments (note 14)	-	(756,892)	-	(756,892)
Balance at 31 December 2015	58,831,801	3,350,502	(55,851,591)	6,330,712

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

	Note	Consolidated 31 Dec 2015 $	31 Dec 2014 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		7,335	-
Research and development offset		-	564,866
Payments to suppliers and employees		(944,080)	(1,467,478)
Interest received		4,329	6,421
Interest and other finance costs paid		(1,166)	-
Net cash used in operating activities		(933,582)	(896,191)
Cash flows from investing activities			
Payments for property, plant and equipment		(7,301)	(6,901)
Proceeds from disposal of property, plant and equipment		-	400
Net cash used in investing activities		(7,301)	(6,501)
Cash flows from financing activities			
Proceeds from issue of shares	13	577,736	-
Proceeds from issue of options		-	1,122,724
Proceeds from borrowings		-	139,697
Repayment of borrowings		(322,752)	(87,947)
Net cash from financing activities		254,984	1,174,474
Net increase/(decrease) in cash and cash equivalents		(685,899)	271,782
Cash and cash equivalents at the beginning of the financial half-year		940,676	215,120
Cash and cash equivalents at the end of the financial half-year		254,777	486,902

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2015 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 2015 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, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending 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, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern

For the financial half-year ended 31 December 2015, the consolidated entity had an operating net loss of $1,893,960, net cash outflows from operating activities of $933,582, and net current liabilities at the reporting date of $2,190,771. The consolidated entity currently does not have a source of revenue and is reliant on equity capital or 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 newly established loan facility agreement with Brevet Capital of New York, secured over the company's entitlements to available future R&D Tax Incentive receipts.
- facilitated exercise of listed options via mandated arrangements with Platinum Road Pty Ltd; and
- issuance of equity via ECT securities, or debt funding, to support project funding needs in India.

Since balance date, the company also received an R&D Tax Incentive refund of $1,114,594 relating to the 2015 financial year and converted $1,501,246 of the primary Fast Finance debt into issued shares.

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 amounts or to the amounts and classification of liabilities that might be necessarily incurred should the consolidated entity not continue as a going concern.

Note 2. Comparatives

Certain comparatives have been reclassified to align with current period presentation. There was no effect on the loss for the period, net asset position or cash flows.

Note 3. 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 4. Revenue

	Consolidated	
	31 Dec 2015 $	31 Dec 2014 $
Interest	8,196	7,341
Other revenue	7,350	379
Revenue	15,546	7,720

Note 5. Other income

	Consolidated	
	31 Dec 2015 $	31 Dec 2014 $
Research and development tax incentive	571,819	564,866

Note 6. Expenses

	Consolidated	
	31 Dec 2015 $	31 Dec 2014 $
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	1,280,163	134,586
Fixtures and fittings	489	161
Office equipment	850	893
Total depreciation	1,281,502	135,640
Amortisation		
Intellectual property	240,000	240,000
Total depreciation and amortisation	1,521,502	375,640
Finance costs		
Interest and finance charges paid/payable	1,910	-
Unwinding of the discount on provisions	398,961	-
ARUP Bond finance costs	-	501,562
Finance costs expensed	400,871	501,562

Note 7. Current assets - trade and other receivables

	Consolidated	
	31 Dec 2015	30 Jun 2015
	$	$
Other receivables	44,003	29,911
Research and development tax incentive receivable	1,686,413	1,114,362
	1,730,416	1,144,273
Loan to G. Fozard	25,000	25,000
	1,755,416	1,169,273

The research and development tax incentive receivable as at 30 June 2015 was subsequently received in January 2016.

Note 8. Non-current assets - property, plant and equipment

	Consolidated	
	31 Dec 2015	30 Jun 2015
	$	$
Plant and equipment - at cost	5,712,837	5,712,837
Less: Accumulated depreciation	(3,296,300)	(2,016,137)
	2,416,537	3,696,700
Fixtures and fittings - at cost	5,789	9,619
Less: Accumulated depreciation	(2,586)	(4,679)
	3,203	4,940
Office equipment - at cost	53,688	50,989
Less: Accumulated depreciation	(46,172)	(49,742)
	7,516	1,247
	2,427,256	3,702,887

Note 9. Non-current assets - intangibles

	Consolidated	
	31 Dec 2015	30 Jun 2015
	$	$
Intellectual property - at cost	9,600,000	9,600,000
Less: Accumulated amortisation	(3,120,000)	(2,880,000)
	6,480,000	6,720,000

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Intellectual property $	Total $
Balance at 1 July 2015	6,720,000	6,720,000
Amortisation expense	(240,000)	(240,000)
Balance at 31 December 2015	6,480,000	6,480,000

Note 9. Non-current assets - intangibles (continued)

The intellectual property represents the patented technology related to Coldry acquired by the consolidated entity in 2009.

Note 10. Current liabilities - borrowings

	Consolidated	
	31 Dec 2015	30 Jun 2015
	$	$
FAST Finance Loan	1,768,878	1,644,656

Fast Finance Loan
The Fast Finance loans were renewed during the period. The primary facility totalling $1,501,246 was satisfied through conversion to equity on 16 January 2016 leaving $300,000 which expires on 27 April 2016.

The balance is repayable in cash or equity, at the lenders option, with an interest rate of 15% p.a. and an equity conversion price of 2.0¢. The loan is secured by first ranking charge and irrevocable pledge over all amounts of R&D tax rebate received from the Australian Tax Office.

Note 11. Current liabilities - provisions

	Consolidated	
	31 Dec 2015	30 Jun 2015
	$	$
Annual leave	57,208	62,846
Deferred consideration - Matmor	1,963,148	2,562,555
	2,020,356	2,625,401

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 and 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 present value of the liability, management have estimated when options will likely be exercised and when milestones will likely be achieved. A discount rate of 41.5% has been applied to derive a present value.

Perpetual Royalty Liability
In addition to the Matmor Asset Liability recognised, 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. Given the uncertainties and risks associated with developing new technologies and the current stage of development of the technology, the liability value is presently immaterial and has not been recognised.

Note 11. Current liabilities - provisions (continued)

Movements in provisions
Movements in each class of provision during the current financial half-year, other than employee benefits, are set out below:

Consolidated - 31 Dec 2015	Deferred consideration - Matmor $
Carrying amount at the start of the half-year	2,562,556
Paid out	(998,368)
Unwinding of discount	398,960
Carrying amount at the end of the half-year	1,963,148

Note 12. Non-current liabilities - provisions

	Consolidated	
	31 Dec 2015 $	30 Jun 2015 $
Long service leave	37,277	34,400
Earn-out provision	348,498	835,044
	385,775	869,444

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 $3m.

The reduction in the balance occurring since 30 June 2015 is a result of a change in estimates related to the timing of production tonnage and duration of the projected production period before it is anticipated that the $3m cap is attained.

Movements in provisions
Movements in each class of provision during the current financial half-year, other than employee benefits, are set out below:

Consolidated - 31 Dec 2015	Earn-out provision $
Carrying amount at the start of the half-year	835,044
Reduction for revision of estimates	(486,546)
Carrying amount at the end of the half-year	348,498

Note 13. Equity - issued capital

	Consolidated			
	31 Dec 2015 Shares	30 Jun 2015 Shares	31 Dec 2015 $	30 Jun 2015 $
Ordinary shares - fully paid	2,618,611,613	2,519,526,361	58,831,801	57,051,403

Note 13. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	No of shares	Issue price	$
Balance	1 July 2015	2,519,526,361		57,051,403
Exercise of ESIOA options	22 September 2015	27,877,778	$0.009	250,900
Exercise of ESIOB options	22 September 2015	35,050,379	$0.015	525,000
Exercise of ESIOA options	7 October 2015	36,000,000	$0.009	324,000
Exercise of ESIOB options	7 October 2015	157,095	$0.015	2,356
Transfer from options reserve		-	$0.000	678,142
Balance	31 December 2015	2,618,611,613		58,831,801

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. 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.

Note 14. Equity - reserves

	Consolidated	
	31 Dec 2015 $	30 Jun 2015 $
Share-based payments reserve	22,087	22,087
Options reserve	3,328,415	4,065,307
	3,350,502	4,087,394

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

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

Consolidated	Share Based Payments $	ESIOA* Options $	ESIOB** Options $	Total $
Balance at 1 July 2015	22,087	1,286,140	2,779,167	4,087,394
Exercise of options	-	(63,878)	(614,264)	(678,142)
Placement	-	-	20,000	20,000
Reversal	-	-	(78,750)	(78,750)
Balance at 31 December 2015	22,087	1,222,262	2,106,153	3,350,502

* ESIOA options have an exercise price of 0.9 cents and expire on 31 July 2017.
** ESIOB options have an exercise price of 1.5 cents and expire on 31 July 2017.

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

Note 17. Related party transactions

Transactions with related parties
During the period, the company had the following loan to a director or director related entity for the purpose of funding purchases of ESIOA options pursuant to the Prospectus dated 30 June 2014. Each option was issued at 0.1 cents and is exercisable on or before 30 July 2017. Options remain in escrow to the extent that there is any principal or interest remaining unpaid on each loan. Interest is payable on the outstanding balance at the rate of 6% p.a. calculated daily. Loans are for 12 months with interest to be paid in arrears and in quarterly instalments.

- Glenn Fozard was advanced $50,000 for the acquisition of 50 million options. Interest incurred during the period was $1,085. The total principal repaid as at period-end remained at $25,000. Interest repaid during the period was $1,085. The loan balance at 31 December 2015 is $25,000. 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.

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 2015	30 Jun 2015
	$	$
Current receivables:		
Loans to directors	25,000	25,000

Note 18. Events after the reporting period

On 19 January 2016, the company secured a binding agreement to proceed with project development activities for its Coldry and Matmor technologies with India's national lignite authority, Neyveli Lignite Corporation and India's largest iron ore miner, NMDC.

On 20 January 2016, 75,253,967 ordinary shares were issued raising $1,503,971. This was a result of the exercise of 166,667 ESIOA options at $0.009 each, 25,000 ESIOB options at $0.015 each, and the issue of 75,062,300 ordinary shares at $0.02 in satisfaction of the primary Fast Finance debt facility which had a carrying value of $1,501,246 at 31 December 2015, leaving $300,000 which expires on 27 April 2016.

During January 2016, the company received a R&D Tax Incentive refund of $1,114,594 relating to the 2015 financial year.

On 2 February 2016, the company finalised a loan facility agreement with Innovation Structured Finance Co., LLC, a specialty finance company established by Brevet Capital, a New York City based investment manager. The Brevet facility is a senior secured loan, established on commercial terms, and provides short-term flexibility to draw down against the company's current accrued R&D Tax Incentive refund for the 2016 financial year, now estimated to be more than $1.2 million.

No other matter or circumstance has arisen since 31 December 2015 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 2015	31 Dec 2014
	$	$
Loss after income tax attributable to the owners of Environmental Clean Technologies Limited	(1,893,960)	(1,563,917)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	2,570,707,611	2,355,950,690
Weighted average number of ordinary shares used in calculating diluted earnings per share	2,570,707,611	2,355,950,690
	Cents	Cents
Basic earnings per share	(0.07)	(0.07)
Diluted earnings per share	(0.07)	(0.07)

At 31 December 2015 there were 1,222,294,586 ESIOA series options and 861,060,942 ESIOB series options on issue over ordinary shares. These options were considered anti-dilutive and excluded from the calculation above.

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 2015 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

26 February 2016
Melbourne

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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 consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated 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 2015 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:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

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

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report, which indicates that the consolidated entity incurred an operating loss before tax of $2,465,780, net cashflows from operating activities of $933,582 and net current liabilities of $2,762,591. Furthermore, the consolidated entity is reliant on equity capital or loans from third parties to meet its operating costs. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO East Coast Partnership

BDO

Alex Swansson
Partner

Melbourne, 26 February 2016