

# Environmental Clean Technologies Limited

## PRELIMINARY FINAL ACCOUNTS FOR YEAR ENDED 30 JUNE 2008

**Thursday, 28<sup>th</sup> August 2008:** Environmental Clean Technologies Limited (ASX:ESI) attaches the company's Preliminary Financial Statements for the year ended 30 June 2008. The Company is now confident it has laid solid foundations for its future and provides an overview of the year's performance:

### Operating Performance

The 2008 Financial Year continued to be one in which ECT undertook substantial expenditure to finalise commercialisation of the Coldry process and continued research, development and testing of the Matmor process.

ECT has two outstanding and unique technologies in Coldry and Matmor that are expected to become revenue producing in 2010 once the Coldry Demonstration plant is commissioned.

The Company has been fortunate in attracting a finance house of the calibre of PhillipCapital who have assisted in capital raising during a world downturn in the markets and have worked with ECT in ensuring sound relationships to underpin its forward strategy.

### Significant Changes and Key Events

In the 2008 Financial Year ECT finalised development of the Coldry process and continued research and development of the Matmor process. The other significant changes that occurred during the financial year were the development of strategic alliances that contributed to the readiness of the Coldry technology:

#### SPV Model

Deloitte was engaged to develop a Coldry Special Purpose Vehicle (SPV) model working with ECT assumptions that were based on GRD Minproc +30% plant feasibility estimates. The +/- 25% to 30% estimates ensure worst case scenarios in the initial modelling and establish the veracity of the expected improved results of the detailed feasibility study. This modelling enables ECT to propose Operation and Capital Expenditure based production solutions drawing on the independently validated Coal to Coldry test results.

#### Arup Alliance

Arup was appointed ECT's global engineering and design partner with the specific task to deliver a prefeasibility design and +/-10% feasibility study that will include designs, documentation and engineering support for the roll-out of Coldry production plants and will establish the financial certainty required to attract key investment partners.

#### MacDow Agreement

ECT engaged global construction firm MacDow to support the feasibility estimates and deliver a Guaranteed Maximum Price (GMP) for Coldry Plant construction, recognising that an unequivocal contract price underpins SPV finance.

#### Completion of preliminary design

The basis of the 150,000 tonne commercial plant design has finished to the extent necessary for preparing a +/-10% feasibility study but ECT and design partner ARUP have identified opportunities for further refinement of the design that will result in significant cost savings to the project. Further testing will result in ARUP's designers finding other ways to optimise the number and geometry of the pack-bed dryers to build a more cost-efficient plant.

The following significant changes occurred after the end of the financial year but will have significant effect in enabling the company's major operations:

#### Completion of +/- 25 to 30% preliminary feasibility study by Arup

In August, ARUP completed ECT's pre-feasibility study for the 150,000 t.p.a Coldry commercial demonstration plant, which includes the basis of design and estimated construction cost of +/- 25% to 30%.

Having now defined the critical design parameters, major cost drivers and improvement opportunities for the project, ECT has determined to allow Arup and construction partner MacDow to undertake further optimisation activity before issuing the construction cost estimate of +/- 10% due October 2008.

#### Acquisition of \$10M zero coupon convertible note

Environmental Clean Technologies agreed terms of a subscription agreement with UK-managed Pacific Capital Investment Management Limited (PCIM) for the issue of \$10M in convertible notes which was unanimously backed by the Board. Shareholders will be asked to support this decision at a General Meeting scheduled for Wednesday 10 September 2008.

The convertible notes are unsecured with a zero per cent coupon and will be issued in tranches, maturing in 2011.

The capital will be used to fund the pursuit of ECT's global sales objectives and the establishment of profitable commercial operations. The PCIM facility is the preferred option for funding ECT's expansion including the employment of a Coldry Product Manager, Business Development Manager and sales support.

It also delivers working capital as required while minimising dilution of existing shareholders as expected gains in share price will be reflected in the issue of fewer shares.

#### The Future

The Board and management believe that the Company is on track to deliver tangible results in 2010 and, subject to the member's approval of the zero coupon convertible note, has a solid financial basis on which to proceed to realise its strategic plans.

## Appendix 4E

### Preliminary final report

#### Environmental Clean Technologies Limited - ACN 009 120 405 (formerly Environmental Solutions International Limited)

##### 1 Details of the reporting period and the previous corresponding period.

Reporting Period	Financial Year ending	30 June 2008
Previous Corresponding Period	Financial Year ending	30 June 2007

##### 2 Results for announcement to the market

###### 2.1 The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities.

Revenue from ordinary activities	\$	439,216
Previous corresponding period	\$	306,819
Percentage change up or down from the previous corresponding period of revenue from ordinary activities	%	43.15%

###### 2.2 The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members.

Loss from ordinary activities after tax	\$	(3,473,180)
Previous corresponding period	\$	(3,406,993)
Percentage change up or down from the previous corresponding period of loss from ordinary activities after tax attributable to members.	%	(1.94%)

###### 2.3 The amount and percentage change up or down from the previous corresponding period of net profit (loss) for the period attributable to members.

Profit (loss) attributable to members	\$'000	(3,473,180)
Previous corresponding period	\$'000	(3,406,993)
Percentage change up or down from the previous corresponding period of net loss for the period attributable to members.	%	(1.94%)

###### 2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends.

No dividends proposed relating to the reporting period

## **Appendix 4E**

### **Preliminary final report**

#### **Environmental Clean Technologies Limited** *(formally Environmental Solutions International Limited)*

**2.5** *The record date for determining entitlements to the dividends (if any).*

Not applicable

**2.6** **A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.**

Refer to separate media release lodged with this Appendix 4E.

## Appendix 4E

### Preliminary final report

#### Environmental Clean Technologies Limited (formally Environmental Solutions International Limited)

3 A consolidated income statement together with notes to the statement, prepared in compliance with AASB 101.

#### Income Statement For the year ended 30 June 2008

	Notes	Consolidated	
		2008	2007
		\$	\$
<b>Revenue from ordinary activities</b>	2	<b>439,216</b>	306,819
Material and subcontractor expenses		(925,740)	(937,634)
Employee benefits expense		(144,689)	(173,653)
Share Based Payments		(422,000)	-
Depreciation and amortisation		(211,061)	(1,488)
Occupancy expense		(145,197)	(151,466)
Patent fees		(12,149)	(57,252)
Corporate costs		(397,269)	(599,461)
Consultancy fees		(825,664)	(1,059,884)
Travel and accommodation		(80,659)	(107,175)
Insurance expense		(49,017)	(98,521)
Impairment of intangibles assets		-	-
Other expenses from ordinary activities		<u>(698,951)</u>	<u>(527,278)</u>
<b>Loss before Income Tax Expense</b>	3	<b>(3,473,180)</b>	(3,406,993)
Income tax expense	4	<u>-</u>	<u>-</u>
<b>Loss attributable to members of Environmental Clean Technologies Limited</b>		<b><u>(3,473,180)</u></b>	<b><u>(3,406,993)</u></b>

The above consolidated income statement should be read in conjunction with the accompanying notes

## Appendix 4E

### Preliminary final report

#### Environmental Clean Technologies Limited

(formally Environmental Solutions International Limited)

4 A consolidated balance sheet together with notes to the statement. The balance sheet may be condensed but must report as line items each significant class of asset, liability, and equity element with appropriate sub-totals.

#### Balance Sheet As at 30 June 2008

	Notes	Consolidated	
		2008	2007
		\$	\$
<b>Current Assets</b>			
Cash and Cash Equivalents Assets	5	324,433	44,769
Trade and Other Receivables	6	68,042	127,459
Other	7	-	-
<b>Total Current Assets</b>		<u>392,475</u>	<u>172,228</u>
<b>Non Current Assets</b>			
Property Plant & Equipment	8	437,316	644,492
<b>Total Non Current Assets</b>		<u>437,316</u>	<u>644,492</u>
<b>TOTAL ASSETS</b>		<u>829,791</u>	<u>816,720</u>
<b>Current Liabilities</b>			
Trade and Other Payables	9	330,199	965,230
Borrowings	10	-	778,000
<b>Total Current Liabilities</b>		<u>330,199</u>	<u>1,743,230</u>
<b>Non Current Liabilities</b>			
Borrowings	11	1,427,456	1,233,054
<b>Total Non Current Liabilities</b>		<u>1,427,456</u>	<u>1,233,054</u>
<b>TOTAL LIABILITIES</b>		<u>1,757,655</u>	<u>2,976,284</u>
<b>NET ASSETS</b>		<u>(927,864)</u>	<u>(2,159,564)</u>
<b>Equity</b>			
Contributed Equity	12	28,700,683	24,411,300
Other reserves	13	1,195,346	779,849
Accumulated Losses	14	(30,823,893)	(27,350,713)
<b>TOTAL EQUITY</b>		<u>(927,864)</u>	<u>(2,159,564)</u>

The above consolidated balance sheet should be read in conjunction with the accompanying notes

## Appendix 4E

### Preliminary final report

#### Environmental Clean Technologies Limited

*(formally Environmental Solutions International Limited)*

5 a) *A statement of changes in equity together with notes to the statement. The statement of changes in equity may be condensed but must comply with the disclosure requirements of AASB 101*

#### Statement of Changes in Equity For the year ended 30 June 2008

	Notes	Consolidated	
		2008	2007
		\$	\$
<b>Total equity at the beginning of the financial year</b>		<u>(2,159,564)</u>	<u>77,430</u>
Cost of Share Based Payments		422,000	-
Equity component of convertible notes issued during the year		-	767,849
Issue of shares by the Group		<u>4,282,880</u>	<u>402,150</u>
<b>Net income and expenses recognised directly in equity</b>		<u>4,704,880</u>	<u>1,169,999</u>
Loss for the financial year		<u>(3,473,180)</u>	<u>(3,406,993)</u>
<b>Total recognised income and expenses for the year</b>		<u>(3,473,180)</u>	<u>(3,406,993)</u>
<b>Total equity at the end of the financial year</b>		<u><u>(927,864)</u></u>	<u><u>(2,159,564)</u></u>

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

## Appendix 4E

### Preliminary final report

#### Environmental Clean Technologies Limited

(formally Environmental Solutions International Limited)

- 5 *A cash flow statement together with notes to the statement. The cash flow statement may be condensed but must report as line items each significant form of cash flow and comply with the disclosure requirements of AASB 107 Cash Flow Statements, or for foreign entities, the equivalent foreign accounting standard.*

#### Cash Flow Statement

For the year ended 30 June 2008

	Notes	Consolidated 2008 \$	2007 \$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		<b>10,953</b>	139,708
Grants received		<b>25,000</b>	213,000
Payments to suppliers and employees (inclusive of GST)		<b>(3,598,338)</b>	(3,076,999)
Interest received	1	<b>13,054</b>	4,890
<b>Net cash outflow from operating activities</b>	15	<b><u>(3,549,331)</u></b>	<u>(2,719,401)</u>
<b>Cash flows from investing activities</b>			
Repayment of Borrowings		<b>(450,000)</b>	-
Payments for property plant and equipment		<b>(3,885)</b>	(633,980)
<b>Net cash outflow from investing activities</b>		<b><u>(453,885)</u></b>	<u>(633,980)</u>
<b>Cash flows from financing activities</b>			
Proceeds from the issuing of convertible notes		-	2,000,000
Loans received		-	778,000
Proceeds from the issuing of shares		<b>4,282,880</b>	402,150
<b>Net cash inflow from financing activities</b>		<b><u>4,282,880</u></b>	<u>3,180,150</u>
<b>Net increase (decrease) in cash held</b>		<b>279,664</b>	(173,231)
Cash at the beginning of the financial year		<b>44,769</b>	218,000
<b>Cash at the end of the financial year</b>	5	<b><u>324,433</u></b>	<u>44,769</u>

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

## Appendix 4E

### Preliminary final report

#### Environmental Clean Technologies Limited

(formally Environmental Solutions International Limited)

Notes to Sections 3, 4 & 5.

#### 1. Summary of Accounting Policies

##### Statement of compliance

The preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A, the disclosure requirements of ASX Appendix 4E, the Corporations Act 2001, Accounting Standards and Australian Accounting Interpretations and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards (IFRS).

The preliminary final report does not include notes of the type normally included in an annual report and should be read in conjunction with the 30 June 2007 Annual Financial Report.

##### Basis of Preparation

The preliminary final report is to be read in conjunction with the 2007 annual report, the December 2007 half-year report and any public announcements made by Environmental Clean Technologies Limited and its controlled entities during the year in accordance with the continuous disclosure obligation arising under the ASX Listing Rules.

The preliminary final report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the preliminary final report are consistent with those adopted and disclosed in the company's 2007 Annual Financial Report for the year ended 30 June 2007, other than as detailed below.

#### 2. Revenue

	Notes	Consolidated	
		2008	2007
		\$	\$
<b>Revenue</b>			
Grants received		25,000	213,000
Miscellaneous income		588	50,833
Rental revenue from subleases		30,482	38,001
		<u>56,070</u>	<u>301,834</u>
<b>Other revenue</b>			
Interest received		13,054	4,985
Other		370,092	-
		<u>383,146</u>	<u>4,985</u>
		<u>439,216</u>	<u>306,819</u>

#### 3. Operating loss

		Consolidated	
		2008	2007
		\$	\$
<b>Net losses and expenses</b>			
Loss before income tax includes the following specific expenses:			
Depreciation			
Plant and equipment		<u>(211,061)</u>	<u>(1,488)</u>
Borrowing costs			
Interest and finance charges paid/payable		<u>(348,796)</u>	<u>(83,402)</u>
Rental expense relating to operating leases			
Minimum lease payments		<u>(145,197)</u>	<u>(151,465)</u>

## Appendix 4E

### Preliminary final report

#### Environmental Clean Technologies Limited (formally Environmental Solutions International Limited)

Notes to Sections 3, 4 & 5.

#### 4. Income tax

	Consolidated	
	2008	2007
	\$	\$
Numerical reconciliation of income tax expense to prima facie tax payable		
Operating loss before income tax expense	<u>(3,473,180)</u>	<u>(3,406,993)</u>
Tax at the Australian tax rate of 30% (2007: 30%)	<u>(1,041,954)</u>	<u>(1,022,098)</u>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Impairment of intangible assets		-
Tax benefit not recognised	<u>1,041,954</u>	<u>1,022,098</u>
Income tax expense	<u>-</u>	<u>-</u>

#### 5. Current assets - Cash assets

	Consolidated	
	2008	2007
	\$	\$
Cash at bank and on hand	<u>324,433</u>	<u>44,769</u>

#### 6. Current assets - Trade and other receivables

	Consolidated	
	2008	2007
	\$	\$
Trade debtors (Nicholson River Resort Pty Ltd)	37,079	17,112
Allowance for doubtful debts	(37,079)	-
Prepayments	27,545	-
Goods and services tax (GST) recoverable	40,497	110,347
	<u>68,042</u>	<u>127,459</u>

## Appendix 4E

### Preliminary final report

#### Environmental Clean Technologies Limited (formally Environmental Solutions International Limited)

Notes to Sections 3, 4 & 5.

#### 7. Current assets - Other

	Consolidated	
	2008	2007
	\$	\$
Deposits paid	-	-
Sundry Debtors	-	-
	<u>-</u>	<u>-</u>

#### 8. Non-current assets - Property, plant and equipment

	Consolidated	
	2008	2007
	\$	\$
<b>Plant and equipment</b>		
At cost	655,764	651,879
Less: Accumulated depreciation	(218,448)	(7,387)
	<u>437,316</u>	<u>644,492</u>

#### 9. Current liabilities - Payables

	Consolidated	
	2008	2007
	\$	\$
Trade payables	99,308	702,992
Other payables	267,969	262,238
	<u>367,277</u>	<u>965,230</u>

## Appendix 4E

### Preliminary final report

#### Environmental Clean Technologies Limited (formerly Environmental Solutions International Limited)

Notes to Sections 3, 4 & 5.

#### 10. Current liabilities - Borrowings

	Consolidated	
	2008	2007
	\$	\$
Unsecured		
Loan	-	778,000
	<u>-</u>	<u>778,000</u>

#### 11. Borrowings

	Consolidated	
	2008	2007
	\$	\$
Unsecured		
Convertible notes	<u>1,427,456</u>	<u>1,233,054</u>

#### 12. Contributed equity

	Consolidated	
	2008	2007
	\$	\$
Balance at the beginning of the year	24,411,300	23,991,150
Issue of shares by the Group	4,282,880	402,150
Transfer of fair value of options exercised from Options reserve	6,503	18,000
Balance at the end of the financial year	<u>28,700,683</u>	<u>24,411,300</u>

#### 13. Other reserves

	Consolidated	
	2008	2007
	\$	\$
Share option reserve		
Balance at the beginning of the year	12,000	30,000
Fair value of options issued during the year	422,000	-
Transfer of fair value of options exercised to contributed equity	(6,503)	(18,000)
Balance at the end of the financial year	<u>427,497</u>	<u>12,000</u>
Convertible note equity reserve		
Balance at the beginning of the year	767,849	-
Equity component of convertible notes issues	-	767,849
Balance at the end of the financial year	<u>767,849</u>	<u>767,849</u>
Total other reserves	<u>1,195,346</u>	<u>779,849</u>

## Appendix 4E

### Preliminary final report

#### Environmental Clean Technologies Limited (formerly Environmental Solutions International Limited)

Notes to Sections 3, 4 & 5.

#### 14. Accumulated losses

	Consolidated	
	2008	2007
	\$	\$
Accumulated losses at the beginning of the financial year	(27,350,713)	(23,943,720)
Net loss attributable to members of the Group	(3,473,180)	(3,406,993)
Accumulated losses at the end of the financial year	<u>(30,823,893)</u>	<u>(27,350,713)</u>

#### 15. Reconciliation of operating loss after income tax to net cash inflow from operating activities

	Consolidated	
	2008	2007
	\$	\$
Operating loss after income tax	(3,473,180)	(3,406,993)
Depreciation and amortisation	211,061	1,488
Debt Forgiven	(351,527)	-
Share Options Issued	414,473	
Doubtful Debt Provision	37,079	
Change in operating assets and liabilities		
Trade debtors and receivables	22,339	49,971
Trade creditors and accruals	(409,576)	636,133
Net cash outflow from operating activities	<u>(3,549,331)</u>	<u>(2,719,401)</u>

## **Appendix 4E**

### **Preliminary final report**

#### **Environmental Clean Technologies Limited** *(formally Environmental Solutions International Limited)*

*Notes to Sections 3, 4 & 5.*

#### **16. Segment reporting**

The company operates within one business segment, being the research and development of dewatering and related technology, and in one geographic segment being Australia.

#### **17. Contingent Asset**

Environmental CleanTechnologies Limited is yet to lodge its 2007 income tax return and research and development tax concession schedule. The total claim (including the concession) is \$979,996 and the company has chosen to claim a refundable tax offset of \$293,999 instead of deduction. The amount of \$293,999 will be subject to approval by the Australian Taxation Office.

#### **18. Events Subsequent to Balance Date**

There have been no significant events subsequent to Balance Date.

## Appendix 4E

### Preliminary final report

#### Environmental Clean Technologies Limited

*(formally Environmental Solutions International Limited)*

- 6 *Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which each dividend or distribution is payable and (if known) the amount per security of foreign sourced dividend or distribution.*

No payments made

- 7 *Details of any dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan.*

No plans approved

- 8 *A statement of retained earnings showing movements.*

See Statement of Changes in Equity

- 9 *Net tangible assets per security with the comparative figure for the previous corresponding period.*

Reporting Period	Cents	<table border="1"><tr><td>(0.30)</td></tr></table>	(0.30)
(0.30)			
Previous Corresponding Period	Cents	<table border="1"><tr><td>(0.79)</td></tr></table>	(0.79)
(0.79)			

- 10 *Details of entities over which control has been gained or lost during the period.*

- 10.1 *Name of the entity.*

Not applicable

- 10.2 *The date of the gain or loss of control.*

Not applicable

- 10.3 *Where material to an understanding of the report – the contribution of such entities to the reporting entity's profit from ordinary activities during the period and the profit or loss of such entities during the whole of the previous corresponding period.*

Not applicable

**Appendix 4E**

**Preliminary final report**

**Environmental Clean Technologies Limited**  
*(formally Environmental Solutions International Limited)*

**11** *Details of associates and joint venture entities including the following.*

**11.1** *Name of the associate or joint venture entity.*

Not applicable

**11.2** *Details of the reporting entity's percentage holding in each of these entities.*

Not applicable

**11.3** *Where material to an understanding of the report - aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for each of these disclosures for the previous corresponding period.*

Reporting Period	\$'000	N/A
Previous Corresponding Period	\$'000	N/A

**12** *Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position.*

Refer to explanatory notes below

**13** *For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).*

Not applicable

## Appendix 4E

### Preliminary final report

#### Environmental Clean Technologies Limited

*(formally Environmental Solutions International Limited)*

**14** *A commentary on the results for the period. The commentary must be sufficient for the user to be able to compare the information presented with equivalent information for previous periods. The commentary must include any significant information needed by an investor to make an informed assessment of the entity's activities and results, which would include but not be limited to discussion of the following.*

**14.1** *The earnings per security and the nature of any dilution aspects.*

	Consolidated	
	2,008	2007
	Cents	Cents
Basic earnings per share	(1.20)	(1.36)
Diluted earnings per share	N/a	N/a
<b>Weighted average number of shares used as the denominator</b>		
Weighted average number of shares used as the denominator in calculating basic earnings per share	<b>289,872,993</b>	250,971,575
<b>Diluted Earnings per share</b>		
Weighted average number of shares used as the denominator in calculating diluted earnings per share	(i)	(i)

(i) Not materially different to basic earnings per share

**14.2** *Returns to shareholders including distributions and buy backs.*

None made

**14.3** *Significant features of operating performance.*

Refer to section 2.6

**14.4** *The results of segments that are significant to an understanding of the business as a whole.*

The consolidated entity operated solely within the research and development of dewatering and related technology industry in Australia during the year.

**14.5** *A discussion of trends in performance.*

Refer to section 2.6

**Appendix 4E**

**Preliminary final report**

**Environmental Clean Technologies Limited**

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**14.6** *Any other factors which have affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified.*

Refer to section 2.6

**15** *A statement as to whether the report is based on accounts which have been audited or subject to review, are in the process of being audited or reviewed, or have not yet been audited or reviewed*

This report is based on accounts that are in the process of being audited.

**16** *If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification.*

No change anticipated from the results reported.

**17** *If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification.*

No dispute or qualification known at the date of lodgement of this report.

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**(Director)**

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**Print Name**

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**Date**