ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED
ACN 009 120 405

HALF-YEAR FINANCIAL REPORT
31 December 2008

CONTENTS

Directors

Dave Woodall
Non-Executive Chairman

Dennis Brockenshire
Non-Executive Director

John Hutchinson
Non Executive Director

Secretary

Jan Macpherson

Principal Registered Office in Australia

Level 10, 530 Little Collins St
Melbourne Vic 3000
(03) 9684 0888

Share Register

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross Perth 6153

Auditors

PKF Chartered Accountants
Level 14, 140 William Street
Melbourne Victoria 3000

Bankers

National Australia Bank Limited
3/330 Collins Street
Melbourne Victoria 3000

Stock Exchange

Australian Stock Exchange Limited
530 Collins Street
Melbourne Victoria 3000

DIRECTORS' REPORT - 31 December 2008

Your directors present their report on the accounts of the Company for the half-year ended 31 December 2008.

Directors

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

D Woodall
J Hutchinson
D Brockenshire

Review of Operations

The net result of operations after applicable income tax expense was a loss of $1,046,824 (2007 loss: $1,978,803).

The first half of 2008-09 has been met with a number of challenges stemming from a downturn in the global economic climate which has heavily impacted ECT's share prices and our ability to seal deals and meet sales objectives.

Despite the share price fall to below 0.02c per share, our loyal shareholders are holding tight as we determine the best options to secure our financial future.

We have successfully reduced our operational expenditure from $3M in 2007-08 to a half yearly result of $1.1M and forward forecast for 2008-09 is around $2M. In these uncertain and unstable economic times, this is a pleasing result for a company of our size with little resources and a prime objective to take the Coldry technology to its next phase of commercialisation and commence pre-feasibility studies on Matmor.

We have continued negotiations and discussions with potential global purchasers of Coldry, and intend to begin initial marketing to over 1524 power stations capable of converting to Coldry immediately. These are primarily located in Eastern Europe, India, China and Indonesia.

Our milestones:

1) The Coldry technology was completed and commercially tested by an independent operator at our Bacchus Marsh Pilot Plant.

2) The Commercialisation plan has been completed and approved by the Board.

3) The company is now scaling up the plant designs through a world wide engineering company (Arup).

4) Discussions are in progress with a number of Australian and overseas companies regarding their interest in the use of the Coldry technology.

5) Identification that the Coldry technology can also be used for the dewatering of some sub-bituminous coals.

6) Advanced planning and preparation for the establishment of the first commercial plant for the processing of Coldry.

7) Testing on Indonesian coals has commenced.

8) Progression has been made on securing a deal from Vietnamese company Victoria Capital for the purchase of 20M tonnes of Coldry over 20 years.

In the administration area we have:

1) Transferred the company's head office to central Melbourne to be closer to our advisors

2) More effectively managed our use of space.

The Board has:

- Made a conscious decision to contain costs while still working towards identifying appropriate future board members that will assist in growing the business.

Shareholder liaison:

- All telephone and email shareholder contacts are dealt with as expeditiously as possible 7 days a week even though we are operating the company with minimum staff.

- The ASX is advised on a continuous disclosure basis.

This company is not yet a revenue producer and, until such time as revenue is produced it will continue to rely on capital raisings and borrowings. The Board have achieved considerable reduction in the cost of operations, however scaling up of the Coldry plant and the work that is necessary to complete the commissioning of the Matmor technology, will continue to require financial input.

Dividends

No dividends were declared by the directors of ECT in relation to the half year period ended 31 December 2008.

Matters Subsequent to the End of the Financial Half Year

There are no matters or circumstances that have arisen since 31 December 2008 that have significantly affected or may significantly affect:

(a) the company's operations in future financial years,

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

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

Significant Changes in the State of Affairs

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

Future Developments

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001, is set out on page 5.

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

JHutchinson

Mr J Hutchinson
Director

Melbourne, 27 February 2009

PKF

Chartered Accountants
& Business Advisers

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 balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement or description of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at 31 December 2008 or from time to time during the half year ended on that date.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the company's financial position as at 31 December 2008 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.

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 2008 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.

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Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our conclusion, we draw attention to Note 1 (a) in the half-year financial report which indicates that the consolidated entity has a net deficiency of assets at 31 December 2008 of $1,276,202 and has incurred a loss of $1,046,824 for the half-year period ended 31 December 2008. These conditions along with other matters set forth in note 1 (a) indicate the existence of a material uncertainty which may cast significant doubt about the ability of the consolidated entity 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 half-year financial report.

PKF

D J Garvey
Partner

27 February 2009
Melbourne

PKF

Chartered Accountants
& Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of Environmental Clean Technologies Limited for the half year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(b) 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 half year.

D J Garvey
Partner
PKF

27 February 2009
Melbourne

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DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 9 to 18:

(a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) give a true and fair view of the Company's financial position as at 31 December 2008 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date.

In the directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and

(b) there are reasonable grounds to believe that Environmental Clean Technologies Limited will be able to pay its debts as and when they become due and payable.

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

Mr J Hutchinson
Director

Melbourne, 27 February 2009.

INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 December 2008

		2008	2007
		$	$
Revenue	3(a)	32,917	58,206
Other Revenue	2	232,625	351,527
		265,542	409,733
Raw materials and subcontractor expenses		114,072	678,445
Employee benefits expense		228,982	485,619
Depreciation and amortisation expenses		71,044	105,483
Travel		55,947	53,073
Rent		1,709	59,823
Corporate costs		402,133	143,922
Consultants		103,826	501,667
Insurance		11,020	29,468
Interest	3(b)	194,369	166,180
Patent fees		7,783	7,323
Other expenses from ordinary activities		121,481	157,532
Loss before Income Tax Expense		(1,046,824)	(1,978,803)
Income Tax Expense		-	-
Net Profit attributable to members of Environmental Clean Technologies Limited		**(1,046,824)**	**(1,978,803)**

	Cents	Cents
Basic earnings per share	(0.33)	(0.71)
Diluted earnings per share	(0.33)	(0.71)

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

BALANCE SHEET
AS AT 31 December 2008

	Note	31 Dec 2008 $	30 June 2008 $
Current Assets			
Cash and Cash Equivalents	4	47,444	324,433
Receivables	6	828,649	68,042
Total Current Assets		876,093	392,475
Non-Current Assets			
Property, plant and equipment		368,231	437,316
Intangible Assets		-	-
Total Non-Current Assets		368,231	437,316
Total Assets		1,244,324	829,791
Current Liabilities			
Trade and other payables		739,425	330,199
Total Current Liabilities		739,425	330,199
Non-Current Liabilities			
Borrowings	7	1,781,101	1,427,456
Total Non-Current Liabilities		1,781,101	1,427,456
Total Liabilities		2,520,526	1,757,655
Net Assets		(1,276,202)	(927,864)
Equity			
Issued capital	5	29,133,445	28,700,683
Reserves		1,461,070	1,195,346
Retained profits		(31,870,717)	(30,823,893)
Total Equity		(1,276,202)	(927,864)

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

STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 December 2008

	2008 $	2007 $
Accumulated losses		
Accumulated losses at the beginning of the period	(30,823,893)	(27,350,713)
Net loss for the period	(1,046,824)	(1,978,803)
Accumulated Losses at the end of the period	**(31,870,717)**	**(29,329,516)**
Share Capital		
Share Capital at the beginning of the period	28,700,683	24,411,300
Shares issued	432,762	2,946,738
Share Capital at the end of the period	**29,133,445**	**27,358,038**
Share Option Reserve		
Balance at the beginning of the period	427,497	12,000
Valuation of Options issued for capital raising	-	175,000
Share based payment valuation for the period	-	389,000
Reserve balance at the end of the period	**427,497**	**576,000**
Convertible Note Reserve		
Balance at the beginning of the period	767,849	767,849
Equity component of convertible notes issue	265,724	-
Reserve balance at the end of the period	**1,033,573**	**767,849**
Total Reserves	**1,461,070**	**1,343,849**

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

CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 December 2008

	2008 $	2007 $
Cash Flows from Operating Activities		
Receipts from customers	-	-
Payments to suppliers and employees	(660,970)	(2,176,242)
Miscellaneous income and cash received	-	20,000
Interest received	2,990	7,050
Interest and other costs of finance paid	-	(75,112)
Net Cash Outflow from Operating Activities	(657,980)	(2,224,304)
Cash Flows from Investing Activities		
Payments for property, plant & equipment	(1,960)	(3,431)
Net Cash Outflow from Investing Activities	(1,960)	(3,431)
Cash Flows From Financing Activities		
(Repayment)/Proceeds of borrowings	-	(426,472)
Receipts from issue of equity	382,951	3,001,739
Net Cash Inflow from Financing Activities	382,951	2,575,267
Net Increase (Decrease) in Cash Held	(276,989)	347,532
Cash at the beginning of the reporting period	324,433	44,769
Cash at the End of the Reporting Period	47,444	392,301

The above cash flow statement should be read in conjunction with the accompanying notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 December 2008

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

This general purpose financial report for the interim half year reporting period ended 31 December 2008 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Environmental Clean Technologies Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

1(a) GOING CONCERN

For the half year ended 31 December 2008 the consolidated entity had a negative net asset position of $1,276,202, a loss of $1,046,824, and a negative cash flow from operating activities of $657,980. Furthermore, the consolidated entity does not have a source of income and is reliant on equity capital or loans from third parties to meet its operating costs. These conditions indicate a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern.

The financial statements have been prepared on the basis that the consolidated entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and the settlement of liabilities in the normal course of business.

The ability of the Consolidated Entity to continue as a going concern is dependent upon a number of factors, one being the continuation and availability of funds. To this end, the Consolidated Entity is expecting the funding from the following sources:

- $2.5m funding from Share Placement Scheme (SPS) at a General Meeting scheduled on 4 March 2009. This SPS will give shareholders the opportunity to subscribe for up to $5,000 in shares, which will be offered at 2 cents per share with two free attaching options that will be exercisable at the same price. ECT has received significant interest from shareholders and is confident of raising $2.5m from the SPS. At present ECT has received an underwriting agreement for $500,000 of the SPS. The underwriting was received from the same sophisticated investors who contributed capital in January 2009.
- Successful share placement made on 20 January 2009 for $220,000 to sophisticated investors.
- In January 2009 $262k was received from the 2006 Research & Development offset claim. ECT has lodged further Research & Development claims with the Australian Taxation office for additional refunds.
- Access to $15 million equity line of credit facility for three years (executed in 2007) with Fortrend Securities Pty Ltd in which ECT has successfully raised funds in the past.

On 16 February 2009, Environmental Clean Technologies (ESI) served Pacific Capital Value Limited (PCVL) with a notice of breach for failure to perform its obligations under the Subscription Agreement dated 18 November 2008. Given these events, ESI considers it unlikely that any more convertible notes will be issued to PCVL (Refer Note 7).

Cash flow forecasts prepared by management demonstrate that the Company has sufficient cash flows to meet its commitments over the next twelve months based on the above factors.

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 report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessarily incurred should the consolidated entity not continue as a going concern.

Based on the above capital raising activities and cash flow forecasts prepared, the directors are of the opinion that the basis upon which the financial statements are prepared is appropriate in the circumstances.

2. OTHER REVENUE

Other revenue amounting to $232,625.40 represents the 2006 Research and Development Offset. This claim was reported and lodged with the Australian Taxation Office in November 2008 and was subsequently received in January 2009.

3. INTEREST REVENUE AND EXPENSE

	31 Dec 2008 $	31 Dec 2007 $
Operating profit before income tax is arrived at after:		
a. crediting interest as revenue	32,917	7,050
b. charging interest as an expense		
- finance charges	75,000	75,112
- unwinding present value	119,369	91,068
	194,369	166,180

4. CASH AND CASH EQUIVALENTS

	31 Dec 2008 $	31 Dec 2007 $
Cash at bank and in hand	47,444	392,301
	47,444	392,301

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

Balances as above	47,444	392,301
Balances per statements of cash flow	47,444	392,301

5. ISSUANCES, REPURCHASES AND REPAYMENTS OF SECURITIES

During the half-year reporting period, Environmental Clean Technologies Ltd undertook the following transactions with shareholders:

1. The company issued 6,400,000 ordinary shares for $14,000 cash consideration by way of exercising options
2. The company issued 11,304,871 ordinary shares for $368,951.

6. RECEIVABLES

	31 Dec 2008 $	30 June 2008 $
First Tranche of Convertible Note held in Escrow	465,000	-
2006 Research & Development Offset	232,625	-
Accrued interest from 2006 Research & Development Offset	29,927	-
Deposits Paid	9,178	-
Prepayments	61,480	27,545
Goods & Services Tax (GST) Receivable	30,439	40,497
	828,649	68,042

7. TRADE AND OTHER PAYABLES

	31 Dec 2008 $	30 June 2008 $
Accrued Interest	158,334	112,158
Professional fees	199,681	151,899
Employee costs	38,929	5,532
Consultants	159,869	88,871
Corporate costs	67,273	26,025
Pilot plant expenses	70,655	27,377
other creditors	44,684	9,588
	739,425	421,450

8. NON-CURRENT LIABILITIES

	31 Dec 2008 $	30 June 2008 $
Convertible Notes	1,781,101	1,427,456
	1,781,101	1,427,456

The debt portion of the convertible note has been calculated at its fair value in accordance with AASB 139 – Financial Instruments: Recognition and Measurement.

A convertible note was issued on 27 June 2007 for $2,000,000 which is redeemable after 3 years, with contracted interest payable every six months at 7.5% per annum. An additional convertible note was issued on 18 December 2008 for $500,000 which is redeemable after 3 years with zero interest coupon payable.

In calculating the fair value of the debt portion of the financial instruments, the directors have discounted the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments which the directors have assessed to be 28.75%

9. FINANCIAL REPORTING BY SEGMENTS

The company operates predominantly in the environmental and energy industry, and a single geographic segment being Australia.

10. EVENTS OCCURRING AFTER REPORTING DATE

On Friday 13 February 2009, Environmental Clean Technologies (ESI) advised that Pacific Capital Value Limited (PCVL) purported to issue it with a "notice of default" in relation to the note certificates issued to PCVL on 17 December 2008 under the subscription agreement dated 18 November 2008.

ESI considers that the purported notice of default is invalid because:

a) it has not been served on ESI in accordance with the delivery procedure for notices under the Subscription Agreement;
b) it relies upon ESI's refusal to issue conversion shares to PCVL before payment for those shares has been made as constituting a default by ESI, whereas ESI disputes that it is required to issue the shares in those circumstances;
c) it asserts that ESI has breached the Subscription Agreement, but does not describe any such breach; and
d) alleged breaches by the party to the Note certificates must be the subject of a remediation notice before any event of default can exist, and no such notice has been given.

On 16 February 2009, ESI served PCVF with a notice of breach due to PCVL's failure to perform its obligations under the Subscription Agreement, and has given PCVL 10 Business Days in which to remedy those breaches. The breaches relate to PCVL's failure to pay for conversion shares and its dealings with shares in ESI lent to it in accordance with the Subscription Agreement.

The likely financial ramifications of this dispute are unknown at this time but are not expected to exceed $100,000. Given these events, ESI considers it unlikely that any more convertible notes will be issued to PCVL. ECT still has access to a $15 million equity line of credit facility for three years (executed in 2007) with Fortrend Securities Pty Ltd.

On 27 February ECT signed a heads of agreement for the staged investment in a special purpose vehicle by a Vietnamese based company, Thang Long Investment to establish a plant for the production of 20M tonnes per annum of Coldry, black substitute coal over the next 30 years.

10. COMMITMENTS AND CONTINGENT LIABILITIES

Participants agreement with Maddingley Associates

Capital Commitment

On 29th July 2005 Asia Pacific Coal and Steel Limited ("APCS") signed a participants agreement with Maddingley Associates with the objective for APCS to licence and commercialise the Coldry and Matmor technology owned by Maddingley Associates.

This agreement was then subject to a deed of variation following the acquisition of 100% of the equity of APCS by Environment Clean Technologies Limited ("ECT") on 25 May 2006.

As part of the participant's agreement and deed of variation, APCS and ECT have committed to complete agreed milestones along an agreed critical path. These milestones were amended on 25 March 2008 by mutual agreement. The commitments which remain outstanding after the year end are as follows:

- Within 30 days of notice being given by Maddingley either once the Matmor Process has been proved, or at 31 December 2010 (whichever is the earlier) – Commissioning of 6000 tonne per annum Matmor Steel demonstration plant at JBD Park, Bacchus Marsh;
- 30 January 2009 – Conclude negotiation for sites for the construction of additional Coldry plants in the Latrobe Valley, to meet additional opportunities for emissions reduction and commence construction of additional Coldry plants to service export market opportunities (goal 10 million tonnes per annum of production capacity by December 2010); and
- 30 July 2009 – Complete commissioning of one Export Plant.

In the opinion of the directors, the capital expenditure commitments arising from the above agreement cannot be accurately estimated, and therefore, no value has not been included in the accounts.

Contingent liability

The Maddingley agreement and subsequent deed of variation states that should the agreement be terminated by any reason other than breach or default on the part of Maddingley Associates, then APCS will grant to Maddingley Coal an option to buy the following for $1:

- The benefits of all contracts, licences and sublicences entered into in relation to the Licenced Technology;
- All right, title and interest of APCS relating to the Licensed Technology;
- All right, title and interest of APCS in any improvements at JBD Industrial Park including any modifications or upgrades to the Coldry Pilot Plant;
- All the leasehold or other interest of APCS to JBD Industrial Park or any part thereof.

As part of the fulfilment of the agreement is dependent on the completion of future events as above there is potentially a loss to the consolidated entity of $437,300 should it fail to meet the obligations and Maddingley exercise the option to purchase the Coldry Pilot Plant upgrades which at 31 December 2008 have a net book value of $368,231 for $1.

On 25 February 2009, a notice was received by Maddingley Coal advising that no action will be taken in relation to the failure of ECT to meet any of the milestones as stated in the Participant's Agreement for 12 months as from the 28th February 2009.

ECT has entered into a Letter of Intent with the Calleja Group, owners of the Coldry and Matmor technologies, for the acquisition of the intellectual property of the Coldry process. ECT has an exclusive right under a Participation Agreement with the technology owners to licence the Coldry and Matmor processes and under the terms of the Letter of Intent will purchase the intellectual property in the Coldry process. The Option will have an initial expiry date of 27 February 2009 however ECT may extend the option period until 1 July 2009 by giving written notice and paying an extension fee. The consideration to be paid by ECT for the Units upon exercise of the Option will comprise both cash and Options. If ECT does not exercise the Option before it expires, the Participant's Agreement will remain in force and the Maddingley Parties will not take action to terminate the Agreement.