

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 2021
Previous period:	For the half-year ended 31 December 2020

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	8227% to	255,626
Loss from ordinary activities after tax attributable to the owners of Environmental Clean Technologies Limited	up	773% to	(1,903,827)
Loss for the half-year attributable to the owners of Environmental Clean Technologies Limited	up	773% to	(1,903,827)

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 \$1,903,827 (31 December 2020: \$217,973).

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

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>0.179</u>	<u>0.090</u>
	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$	\$
Net tangible assets have been calculated as follows:		
Net assets/(liabilities)	2,535,304	662,954
Less: Intangibles	(789,509)	(706,944)
Add: Lease liabilities	<u>622,269</u>	<u>759,549</u>
	<u>2,368,064</u>	<u>715,559</u>
	No. of shares	No. of shares
Shares on issue at period-end	<u>1,320,152,614</u>	<u>787,962,495</u>

Right-of-use assets have been treated as intangible assets and therefore excluded from the net tangible asset calculation.

The comparative period ordinary shares on issue have been adjusted for the share consolidation that occurred on 1 July 2021 so that the NTA calculation is comparable between current and prior periods.

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. 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 Financial Report. The review report contains a paragraph that draws attention to the use of the going concern basis for the preparation of the financial statements.

7. Attachments

Details of attachments (if any):

The Interim Financial Report of Environmental Clean Technologies Limited for the half-year ended 31 December 2021 is attached.

8. Signed

As authorised by the Board of Directors



Glenn Fozard
Managing Director

28 February 2022
Melbourne

Environmental Clean Technologies Limited

(ABN 28 009 120 405)

Interim Financial Report - 31 December 2021



**ENVIRONMENTAL CLEAN
TECHNOLOGIES LIMITED**

Environmental Clean Technologies Limited

Directors' report

31 December 2021

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 2021.

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:

Non-Executive Directors:

Jason Marinko - Chairman (appointed 2 September 2021)

Tim Wise (appointed 2 September 2021)

James Blackburn

Executive Directors:

Glenn Fozard (Managing Director)

Former Non-Executive Directors:

Neil O'Keefe (retired 2 September 2021)

Former Executive Directors:

Ashley Moore (retired 2 September 2021)

Principal activities

During the financial period, the principal continuing activities of the consolidated entity consisted of investment, research, development, and the commercialisation of technologies which bridge the gap between today's use of resources and tomorrow's zero-emissions future with an emphasis on the energy and resource sectors. Such activities included:

- developing a scaled demonstration of COLDry at the Bacchus March site; and
- managing the research and development of, and commercialising the value within, the consolidated entity's intellectual property.

COLDry Demonstration Project (COLDry Project)

A project to develop and build a scaled COLDry demonstration plant at Bacchus Marsh was commenced at the beginning of the 2020 financial year.

Comprised of ~25,000 tpa COLDry plant (Phase 1) and the addition of new plant and equipment to produce high-value energy products including char and synthesis gas (Phase 2), the project constitutes a small-scale commercial demonstration of the Company's proprietary COLDry technology integrated with other processes to produce agricultural char and synthesis gas capable of transformation into other valuable streams like hydrogen, formic acid and dimethyl ether.

Despite continued COVID-driven systemic bottlenecks across supply chains and ongoing labour market shortages slowing scheduled progress, Phase 1 is currently targeting commissioning by the end of Q3FY22.

During the period the Company advised that Phase 2 had been paused to focus on re-engaging with large energy companies that have previously indicated an interest to see the COLDry process at large scale and re-evaluating the various downstream opportunities for its products in light of broad government and industry support for the emerging hydrogen industry.

As a result of this review, the Company subsequently announced the commencement of the feasibility study for its Net Zero Emission Hydrogen Refinery project (Headline Project), proposed for deployment in Victoria's Latrobe Valley, and the acquisition of land adjacent to the Yallourn lignite mine.

This shift in focus brings forward the Company's plans for the large-scale commercial demonstration of its COLDry process as part of an integrated hydrogen hub, enabling the future net-zero emission use of lignite combined with biomass waste, the high-volume manufacture of agricultural char and clean chemical fuels like hydrogen.

The initial objective of Phase 2 was limited to the installation of a rotary kiln to enable the production of char for commercial sale. The review has identified a range of opportunities to broaden the scope of Phase 2 to include the capability to support the Company's proposed Headline Project in Victoria's Latrobe Valley.

As such, the scope of the COLDry Project at Bacchus Marsh has grown, becoming an integral stepping stone to the larger hydrogen-focused project in the Latrobe Valley, informing the design of the large-scale COLDry plant and providing testing facilities to underpin full-scale development, including process and product development and optimisation.

The R&D objectives of the project include:

- Scale up from COLDry pilot scale including:
 - fully bespoke 5-pass conditioning system
 - incorporation of higher capacity primary processing train
 - packed bed dryer capacity and efficiency redesigns
- Blending of lignite with biomass waste streams
- Recovery and utilisation of waste energy from the char kiln
- Integration with waste energy application, being the char kiln, to provide drying energy for the COLDry process
- Utilisation of syngas produced from the char kiln
- Production of solid fuel COLDry pellets, to target specification
- Production of char from solid fuel COLDry pellets, to target specification (subject to resumption of Phase 2 activity)
- Research into improved fertility treatments of the produced char
- Demonstration of formic acid, hydrogen and dimethyl ether production (subject to resumption of Phase 2 activity)
- Demonstration of environmental credentials including generation of carbon credits and net zero emission processing.

COLDry Process

The COLDry process is a low temperature, low pressure and therefore a low-cost method of drying lignite and other similar substrates to produce an upgraded product suitable as a feedstock for a range of high value applications. 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 dry, dense pellets that are stable, easily stored, can be transported, and are of equal or higher energy value than many black coals.

The COLDry process also acts as a 'gateway technology', making an ideal front-end feedstock that enables numerous higher value upgrading applications such as clean hydrogen, syngas, fertiliser, agricultural char, graphitic carbon and iron production. When integrated with the HydroMOR process, the COLDry process provides an essential and cost effective front-end drying and pelletising solution that enables the world's first and only lignite based primary iron production method.

Essentially, the COLDry process combines two mechanisms to achieve efficient, cost-effective drying; lignite densification; and waste heat utilisation. Lignite densification is achieved through the destruction of the internal porous structures, mobilising the structurally trapped water within lignite. 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.

HydroMOR Process

HydroMOR is an improved version of the Company's previously named Matmor process which is a cleaner, lower-emission, one-step process for producing high-grade primary iron, using lignite to displace the need for coking coal, as used in the conventional blast furnace process.

HydroMOR is an improvement over the existing Matmor process, deriving further advantage from its unique raw material base, especially the hydrocarbon-rich lignite used in the role of reductant. The process derives its name from the utilisation of hydrogen to drive the reduction process used to produce metals from ore. The hydrogen is produced in-situ from the lignite within the process, avoiding the need for external hydrogen production plant.

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

HydroMOR creates a high-grade iron product from lignite and ferrous media such as iron ore, mill scale or other iron bearing wastes or tailings. The process involves blending lignite with iron ore or other metal oxide bearing media to form a paste that is dried using the COLDry process. The 'composite' pellets are then fed into the Company's simple low cost, low emission, patented retort (vertical shaft furnace) where the remaining moisture is removed, the lignite chemistry is harnessed and the iron oxides are reduced to metal.

The HydroMOR process operates below 900 degrees Celsius, compared to a blast furnace which operates at around 1500 degrees Celsius. 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.

HydroMOR 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.

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

COHgen Process

ECT is developing an alternative to the conventional gasification-steam methane reforming method of hydrogen production from lignite, called Catalytic Organic Hydrogen generation, featuring:

- Up to 70% lower CO₂ emissions than conventional lignite gasification-based hydrogen production
- Lower carbon capture and storage (CCS) reliance and cost, due to lower CO₂ emissions
- Higher hydrogen yield per tonne of lignite than conventional lignite gasification
- Lower estimated cost than conventional lignite, renewable and natural gas-based hydrogen production routes
- Utilises an abundant, affordable, environmentally friendly catalyst that can be used multiple times.

The COHgen process utilises a unique low-cost catalyst to facilitate the low temperature catalytic thermal decomposition of the hydrocarbons generated from lignite.

The Company is currently developing a strategy and associated budget for progression to the next stage of commercialisation.

CDP Waste-to-Energy

The Company announced on 10 July 2019 that it had completed the purchase of a catalytic de-polymerisation (CDP) technology which is capable of producing automotive diesel from a range of hydrocarbon-based inputs including various waste and hydrocarbon streams such as waste timber, end-of-life plastics and lignite.

The ECT Group is yet to devote further resources to the development of this activity as the focus has been on the rebuild of the Bacchus Marsh facility.

Research and Development

In support of developing further value from our existing suite of technologies, the Company maintains a regular R&D program, often in collaboration with research and education organisations. The following is a list of current programs:

COLDry

- Pellet formation and robustness
- Commissioning support
- End user trials
- Process integration:
 - Char
 - Fertility treatment
 - Graphitic & active carbons
 - Synthesis Gas
 - Hydrogen
 - Formic Acid
 - Dimethyl Ether
 - Hydrogen Fuel Cells
 - Electricity Turbine

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- Feedstock selection
 - Biomass waste
 - Yallourn lignite
 - Maddingley lignite

HydroMOR

- HILT CRC engagement
- End user / development trials

COHGen

- Patent development work program
- Catalyst development & evaluation
- FEnEx CRC engagement / Ammonia utilisation

Intellectual Property

The consolidated entity owns the COLDry, HydroMOR, COHGen and CDP-WTE intellectual property. Aspects of the COLDry process are covered by patents in a range of major markets with significant lignite deposits.

In November 2017, the Company submitted a Patent Cooperation Treaty application following the submission of an Australian provisional patent application in November 2016. This is the next step in the intellectual property protection of the Company's new HydroMOR technology platform. The filing sets in place the timetable for the subsequent national based process for IP protection, where individual patent submissions will be made in each geography of interest. Subsequent to the reporting period, the Company received notification that its HydroMOR patent had been accepted in Russia and Europe and it anticipates that the patent will be granted within approximately 6 months.

Due to its intrinsic reliance on COLDry for feedstock preparation, HydroMOR and COHGen are afforded an additional degree of protection via COLDry intellectual property. In markets where neither COLDry nor HydroMOR patents exist, the Company will employ other IP protection strategies.

Equity Lending Facility ('ELF')

During the year, ECT Finance Ltd ('ECTF'), a subsidiary of the Company, continued to manage its portfolio of ELF loans. The ELF for unlisted options was wound up on 30 June 2021, one month earlier than the original expiry date of 31 July 2021 with the agreement of all parties as it was known that the loans would not be repaid given the Company's share price. New ELFs were established using the Company's shares as security that were issued as part of the shortfall from the non-renounceable rights issue as well as shares that were forfeited when borrowers decided not to repay ELFs that were associated with the ESIOA and ESIOB option series. A further ELF was provided to the lead manager (or their nominees) of the Company's convertible promissory note issue.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$1,903,827 (31 December 2020: \$217,973).

Revenue and other income for the period of \$671,113 is lower than the prior corresponding period (31 December 2020: \$1,106,847) largely due to the comparative period including insurance proceeds of \$593,012. Revenue for the period included once-off sales from the Wood247 pilot business of \$251,927.

Total expenses for the six months to 31 December 2021 were considerably more compared to the same period last year as a result of the following factors:

- Corporate costs increased due to:
 - increased costs for ASX listing fees due to an increase in the market capitalisation and new share issues
 - increased share registry costs associated with new share issues
 - increased corporate advisory and consulting fees mainly associated with the Coldry demonstration project activities at Bacchus Marsh
- Depreciation and amortisation increased compared to the prior year as many assets were installed ready for use at the end of the last financial year and as such depreciation has been recognised on these assets for the first time during the six months ended 31 December 2021
- Employee benefits costs increased as a result of additional labour costs associated with Wood247
- The increase in finance costs was primarily due to interest on the convertible promissory notes which were issued during the reporting period
- Sales and marketing costs increased due to advertising costs associated with Wood247

COLDry Demonstration Project

The Company continued the construction and installation of the COLDry demonstration project which started in June 2020. This activity was the Company's main activity during the reporting period and comprised the building of a scaled-up COLDry plant.

Gippsland Region Hydrogen Cluster (GRHC)

The Company accepted an invitation to join the GRHC as a member of the advisory committee.

The GRHC was formed by the Committee for Gippsland and National Energy Resources Australia (NERA) with the stated purpose to 'build a competitive clean hydrogen industry in Gippsland that will create jobs, secure investment, generate export income and help lower emissions'.

Heavy Industry Low-carbon Transition Cooperative Research Centre (HILT-CRC)

The Company joined the HILT-CRC as an affiliate partner.

HILT-CRC is positioned to be Australia's leading collaboration transforming the heavy industry for the low-carbon economy. Participants will seek to develop and demonstrate the technologies needed to grow Australia's economy, unlocking potential value of \$48.7 billion in annual revenue and \$92 billion in investments, while mitigating CO₂ emissions.

Consisting of 3 programs, HILT aims to drive down the emissions intensity of the steel, aluminium and cement industries.

ECT has unlocked the chemistry of lignite, enabling the shift from CO₂-intensive lignite-fired power generation to the future low and zero-net emission use of lignite, including:

- Hydrogen, char and synthesis gas via our COLDry process integrated with other complimentary processes
- Iron and steel production via our HydroMOR process
- Hydrogen production via our COHgen process
- Lignite to diesel production via our CDP-WTE process

Enabled by the Company's zero-emission lignite drying process COLDry, the Company will seek to develop its suite of solutions for Victoria's lignite resource.

Future Energy Exports Cooperative Research Centre (FEnEx CRC)

In addition to joining the GRHC and HILT-CRC, the Company continued its activities under the FEnEx CRC.

FEnEx CRC is Australia's leading hydrogen industry development program helping focus and drive hydrogen research efforts across industry and academia. During the period, the Company formalised its participation in the program through the signing of a 'Supporting Participant Agreement'. The FEnEx CRC aims to execute cutting-edge, industry-led research, education and training to help sustain Australia's position as a leading LNG exporter, and enable it to become the leading global hydrogen exporter. The Company will utilise its existing technology, COHgen and COLDry, to support the Hydrogen Export and Value Chains component of the overall program. The FEnEx program will assist ECT to validate the scale-up of COHgen in collaboration with industry leaders (energy producers) and end-users (energy consumers) and to identify the range of performance indicators and benchmarks for the production of hydrogen from lignite.

Capital restructure

To implement an improved capital structure for the Company moving forward, the Company has (following shareholder approval) consolidated its issued capital on a 10 to 1 basis.

Wood247 - recycled wood briquette pilot business

In July 2021, the Company established a pilot business called Wood247 and commenced selling recycled wood briquettes and other complimentary products. The wood briquettes are made from recycled Australian timber. The briquettes are predominantly sold in 240L and 100L wheelie bins but are also available in 10kg bags.

ECTOE options

On 14 July 2021, the Company issued 50,000,000 ECTOE options to the shareholders that participated in the share placement. These options were issued on the same terms as the existing ECTOE options.

Share and option issues

On 30 August 2021, the Company issued the following equities that are all related to the Company's capital raising via a share placement and a share purchase plan announced 7 April 2021:

- 35,000,000 fully paid ordinary shares issued to the lead manager (or their nominees) that are secured by an ELF of \$700,000 plus interest and expires 3 years from the date of issue;
- 75,000,000 ECTOE options expiring 17 February 2023 to the lead manager on the basis of 1 option for every 2 shares issued under the share placement; and
- 9,000,000 fully paid ordinary shares and 3,000,000 ECTOE options expiring 17 February 2023 to the lead manager which represents the 6% capital raising fee.

Key management personnel changes

On 3 September 2021, the Company announced the following changes to the composition of the Board of Directors:

- Jason Marinko and Tim Wise were appointed as non-executive directors. Mr Marinko has been elected as Chairman;
- Ashley Moore and the Hon. Neil O'Keefe resigned as executive and non-executive directors respectively; and
- Glenn Fozard has moved into the position of Managing Director.

Ashley Moore will continue as ECT's Chief Engineer, and the Company will engage Mr O'Keefe on a consulting basis to continue to assist the Company with its government relations strategy.

On 13 October 2021, the Company announced the appointment of Mr Arron Canicais and Mr Kian Tan as joint company secretaries of the Company. Mr Adam Giles resigned as company secretary on this date and will continue in his role as Marketing & Communications Manager.

\$3 million convertible promissory note raising

The Company also announced on 3 September 2021 that it has received firm commitments for a convertible promissory note raising from a syndicate of sophisticated and professional investors.

Settlement of the convertible promissory notes, and the issue of such notes occurred in September 2021.

Jason Marinko, Tim Wise, Glenn Fozard and Ashley Moore are all holders of convertible promissory notes to the value of \$50,000, \$25,000, \$40,000 and \$20,000 respectively.

The Company issued 165,000,000 ECTOE options expiring 17 February 2023 and 18,000,000 fully paid ordinary shares to the lead manager relating to the convertible promissory note capital raising.

The Company issued the following equities on conversion of the promissory notes after receiving approval at the annual general meeting:

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- 3,000,000 ECTOE options expiring 17 February 2023 to the lead manager; and
- 286,000,000 ECTOE options expiring 17 February 2023 and 290,152,877 fully paid ordinary shares to the lenders who participated in the convertible promissory note raising.

FY21 R&D Tax Incentive Refund

The FY21 tax incentive refund of \$1,988,000 delivers a net cashflow of ~\$670,000 to the Company following the repayment of the R&D loan balance (plus accrued interest, as disclosed in the 2021 Annual Financial Report). These funds will contribute to financing the Company's strategic initiatives, including the scaled-up demonstration of its COLDry technology and the preparation of a full feasibility study for the proposed Net Zero Emission Hydrogen Refinery Hub Project in Victoria's Latrobe Valley.

InvestVictoria R&D Loan

During the period, the Company established a new \$1,968,000 R&D loan facility with InvestVictoria for FY22. The R&D Cash Flow Loans program provides low-interest loans to innovative Victorian SMEs that meet certain eligibility criteria. The first drawdown amount was \$1,180,000 which was followed by a drawdown of \$788,000 on 25 February 2022. The interest rate at the time of execution was 0.265%.

Site Purchased for Proposed Hydrogen Refinery Project

On 23 November 2021, the Company announced the purchase of a site, suitable for the deployment of its proposed headline hydrogen refinery project in Victoria's Latrobe Valley ('the Project') which is aimed at delivering net-zero emission hydrogen, agricultural char and other valuable products. The property, located immediately adjacent to the Yallourn mine and power station, will host the Project, which was outlined in ECT's announcement on 15 November 2021.

Covering an area of 4.2Ha, the property will allow the Company to progress its full feasibility study with the confidence that work may start on this site at ECT's discretion, as and when feasibility results drive activities. The property is also near the T15/16 upgrade project that has been jointly undertaken by ECT and the owner of Yallourn mine and power station, Energy Australia.

On 22 February 2022, the purchase price for the property of \$950,000 was satisfied via a \$475,000 cash payment (funded from existing working capital) and the transfer of 25 million fully paid ordinary shares in ECT via an existing ELF that was previously established to pay for equipment and contractors as announced on 18 May 2020 and 18 June 2020. As a result, no new shares have been issued.

COVID-19 impacts

During the period, the Company continued its COLDry upgrade project operations under both stage 3 and stage 4 COVID-19 restrictions implemented in Victoria. The upgrade at Bacchus Marsh was allowed to progress under Stage 3 restrictions in that region on the basis that the operations were considered to be within the construction, mining and energy classification. All necessary health and hygiene protocols were developed and implemented, including the required permitting of workers, to protect personnel and site visitors and the upgrade to progress. The Company will continue to closely monitor the situation and remain vigilant to the continued risks.

Significant changes in the state of affairs

As from 1 July 2021, and as approved at an extraordinary general meeting of the Company on 25 June 2021, the share capital of the Company was consolidated on the basis that every ten shares or options held in the Company was converted to one share or option. Further details are provided in the notes to the financial statements. The exercise price of ECTOE options was adjusted from \$0.003 to \$0.03.

There were no other 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

Sale of Wood247 business

On 17 January 2022, the Company announced to the market its intention to sell the retail recycled hardwood briquette business, Wood247. This decision was made after the completion of its pilot period and a strategic review of the business. It was determined that the Wood247 business was inconsistent with the key strategic objectives of the Company with respect to Net Zero and hydrogen technologies.

Site Purchased for Proposed Hydrogen Refinery Project

On 22 February 2022, the Company settled the purchase of a site in Yallourn that will be suitable for its proposed hydrogen refinery project. Refer 'Review of Operations' section above for further details.

Convertible Promissory Notes

On 21 January 2022, the Company issued and allotted 8,646,713 fully paid ordinary shares and 8,500,000 ECTOE options upon the conversion of promissory notes as approved by shareholders at the Company's AGM in December 2021.

Release of Shares from Escrow

On 15 February 2022, 65,000,000 fully paid ordinary shares and 26,000,000 ECTOE options were released from escrow following receipt of \$650,000 which repaid the ELF's issued to Challenge Bricks and Roofing Pty Ltd and nominees. Refer ASX announcement 9 February 2022. A further 18,261,835 ECTOE options were released from another ELF in the name of Iain McEwin. These options were released to Mr McEwin in lieu of a performance fee for arranging the early repayment of the ELF issued to Challenge Bricks and Roofing Pty Ltd and nominees.

On 24 February 2022, 625,001 shares were released from escrow to both Glenn Fozard and James Blackburn in settlement of directors' fees payable in lieu of cash. The issue of shares in lieu of being paid in cash, which was approved by shareholders at the Company's 2020 AGM, is now complete.

InvestVictoria R&D loan

On 25 February 2022, the Company received \$788,000 which is the second and final tranche of its loan from InvestVictoria. This brings the total principal of the loan to \$1,968,000. The loan is secured by the Company's expected 2021/22 R&D incentive.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Environmental Clean Technologies Limited
Directors' report
31 December 2021

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

A handwritten signature in black ink, appearing to read 'Glenn Fozard', written in a cursive style.

Glenn Fozard
Managing Director

28 February 2022
Melbourne

DECLARATION OF INDEPENDENCE BY KATHERINE ROBERTSON 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 2021, 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.



Katherine Robertson
Director

BDO Audit Pty Ltd

Melbourne, 28 February 2022

Environmental Clean Technologies Limited

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Environmental Clean Technologies Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2021

		Consolidated	
	Note	31 Dec 2021	31 Dec 2020
		\$	\$
Revenue	4	251,927	-
Other income	5	415,487	1,103,777
Interest revenue calculated using the effective interest method		3,699	3,070
Total revenue and other income		<u>671,113</u>	<u>1,106,847</u>
Expenses			
Change in fair value of financial liabilities		(170,131)	(39,171)
Changes in inventories		(117,830)	-
Corporate costs		(894,952)	(631,143)
Depreciation and amortisation expense		(323,398)	(147,359)
Employee benefits expense		(233,890)	(124,188)
Engineering and design costs		(248,923)	(162,862)
Finance costs		(296,157)	(49,516)
Legal costs		(42,617)	(39,722)
Occupancy expense		(52,542)	(39,907)
Sales and marketing		(188,641)	(86,395)
Travel and accommodation		(5,859)	(4,557)
Total expenses		<u>(2,574,940)</u>	<u>(1,324,820)</u>
Loss before income tax expense		(1,903,827)	(217,973)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Environmental Clean Technologies Limited		(1,903,827)	(217,973)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive loss for the half-year attributable to the owners of Environmental Clean Technologies Limited		<u>(1,903,827)</u>	<u>(217,973)</u>
		Cents	Cents
Basic loss per share	18	(0.187)	(0.028)
Diluted loss per share	18	(0.187)	(0.028)

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

Environmental Clean Technologies Limited
Statement of financial position
As at 31 December 2021

		Consolidated	
	Note	31 Dec 2021	30 Jun 2021
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		2,132,620	1,014,490
Trade and other receivables	6	540,343	2,276,858
Inventories	7	167,686	84,703
Other assets		104,674	49,102
Total current assets		<u>2,945,323</u>	<u>3,425,153</u>
Non-current assets			
Property, plant and equipment	8	3,637,067	2,551,603
Right-of-use assets		560,684	636,702
Intangibles		228,825	254,250
Total non-current assets		<u>4,426,576</u>	<u>3,442,555</u>
Total assets		<u>7,371,899</u>	<u>6,867,708</u>
Liabilities			
Current liabilities			
Trade and other payables		930,446	1,757,005
Borrowings	9	1,287,177	1,285,558
Lease liabilities		152,685	147,871
Derivative financial instruments		11,620	-
Provisions		10,964	6,079
Other financial liabilities	10	-	3,857
Total current liabilities		<u>2,392,892</u>	<u>3,200,370</u>
Non-current liabilities			
Lease liabilities		469,584	547,324
Provisions		2,599	517
Other financial liabilities	11	1,971,520	1,797,532
Total non-current liabilities		<u>2,443,703</u>	<u>2,345,373</u>
Total liabilities		<u>4,836,595</u>	<u>5,545,743</u>
Net assets		<u>2,535,304</u>	<u>1,321,965</u>
Equity			
Issued capital	12	82,906,006	81,091,892
Reserves	13	1,421,337	118,285
Accumulated losses		(81,792,039)	(79,888,212)
Total equity		<u>2,535,304</u>	<u>1,321,965</u>

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

Environmental Clean Technologies Limited
Statement of changes in equity
For the half-year ended 31 December 2021

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2020	78,605,405	495,698	(78,220,176)	880,927
Loss after income tax expense for the half-year	-	-	(217,973)	(217,973)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive loss for the half-year	-	-	(217,973)	(217,973)
<i>Transactions with owners in their capacity as owners:</i>				
Options exercised	294,009	(294,009)	-	-
Transfer option premium (expired options)	-	(201,689)	201,689	-
Balance at 31 December 2020	<u>78,899,414</u>	<u>-</u>	<u>(78,236,460)</u>	<u>662,954</u>

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2021	81,091,892	118,285	(79,888,212)	1,321,965
Loss after income tax expense for the half-year	-	-	(1,903,827)	(1,903,827)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive loss for the half-year	-	-	(1,903,827)	(1,903,827)
<i>Transactions with owners in their capacity as owners:</i>				
Equity component of convertible promissory notes (note 12)	384,136	-	-	384,136
Share-based payments (note 12),(note 13)	298,774	538,958	-	837,732
Issue of shares and options on conversion of promissory notes (note 12),(note 13)	1,395,339	764,094	-	2,159,433
Share issue costs	(265,000)	-	-	(265,000)
Shares issued on exercise of options	865	-	-	865
Balance at 31 December 2021	<u>82,906,006</u>	<u>1,421,337</u>	<u>(81,792,039)</u>	<u>2,535,304</u>

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

Environmental Clean Technologies Limited
Statement of cash flows
For the half-year ended 31 December 2021

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$	\$
Cash flows from operating activities		
Research and development tax incentive	1,988,680	899,612
Receipts from customers (inclusive of GST)	256,138	9,872
Payments to suppliers and employees (inclusive of GST)	(2,666,370)	(1,028,293)
Interest received	3,699	3,070
Interest and other finance costs paid	(72,574)	(49,516)
Government grants received	1,200	79,000
	<u> </u>	<u> </u>
Net cash used in operating activities	<u>(489,227)</u>	<u>(86,255)</u>
Cash flows from investing activities		
Payments for property, plant and equipment	<u>(1,096,701)</u>	<u>(626,869)</u>
Net cash used in investing activities	<u>(1,096,701)</u>	<u>(626,869)</u>
Cash flows from financing activities		
Proceeds from exercise of options	864	-
Proceeds from issue of convertible promissory notes	2,905,000	-
Proceeds from loans	1,180,248	-
Repayment of borrowings	(1,273,504)	(14,465)
Repayment of lease liabilities	(89,550)	(53,167)
Capital raising costs	(19,000)	-
	<u> </u>	<u> </u>
Net cash from/(used in) financing activities	<u>2,704,058</u>	<u>(67,632)</u>
Net increase/(decrease) in cash and cash equivalents	1,118,130	(780,756)
Cash and cash equivalents at the beginning of the financial half-year	1,014,490	1,104,781
Effects of exchange rate changes on cash and cash equivalents	-	(12,352)
	<u> </u>	<u> </u>
Cash and cash equivalents at the end of the financial half-year	<u><u>2,132,620</u></u>	<u><u>311,673</u></u>

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

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2021

Note 1. General information

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

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

388 Punt Road
South Yarra, Victoria, 3141
Australia

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2022. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2021 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 2021 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

Going concern

For the financial half-year ended 31 December 2021, the consolidated entity incurred an operating net loss of \$1,903,827 (31 Dec 2020: net loss of \$217,973), had net cash outflows from operating activities of \$489,227 (31 Dec 2020: net cash outflows of \$86,255), net current assets at the reporting date of \$552,431 (30 June 2021: net current assets of \$224,783) and total net assets of \$2,535,304 (30 June 2021: \$1,321,965). The consolidated entity does not currently have a significant source of operating revenue and is reliant upon receipt of the R&D tax incentives, raising of equity capital, and loans from third parties to meet its operating costs.

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

The ability to continue as a going concern is dependent upon several 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, the realisation of assets and the settlement of liabilities in the normal course of business.

Note 2. Significant accounting policies (continued)

To this end, the consolidated entity is expecting to fund ongoing obligations as follows:

- drawdowns against a loan facility with Invest Victoria, secured over the Company's entitlements to available future research and development tax incentive receipts;
- principal paid and interest earned from its ELF debt arrangements (treated as capital injections); and
- issuance of the Company's securities under ASX Listing Rule 7.1.

Based on the above and cash flow forecasts prepared, the directors are of the opinion that the consolidated entity 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.

Should the consolidated entity be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessarily incurred should the consolidated entity not continue as a going concern.

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.

The CODM reviews operating performance of the consolidated entity based on management reports. At regular intervals, the CODM is provided management information at a consolidated entity level for the consolidated entity's cash position and cash forecast for the next 12 months of operation. On this basis, no segment information is included in these financial statements.

Types of products and services

The principal products and services are as follows:

- ECT (COLDry, HydroMOR and FEnEx CRC): ECT represents the consolidated entity's primary activities of investment, research, development and commercialisation of technologies relating to the COLDry and HydroMOR processes and FEnEx CRC participation.
- ECT Finance ('ECTF'): ECTF is a subsidiary of the group, and represents the equity lending facility activities of the consolidated group. ECTF lends to shareholders at commercial interest rates allowing them to finance the acquisition of shares in the Company through limited recourse loan arrangements.

ECT provides funding to ECTF via intersegment loan accounts allowing ECTF to then advance funds to ECT shareholders (i.e. ELF borrowers) for the purpose of exercising their ECT options and acquiring shares in ECT. The shares in ECT are held as security by ECTF against the ELF borrowings until such time as principal and interest payments are made. ECTF may release partial allocations of ECT shares on receipt of repayments of ELF borrowings.

The loan made by ECT to ECFT is interest bearing giving rise to inter-segment revenue generated by ECT and inter-segment interest expense incurred by ECTF. At a consolidated level, all inter-segment loans are eliminated along with the related interest revenue and expense. Furthermore, all ELF borrowings advanced to shareholders, together with the related issue of ECT shares are eliminated as, pursuant to accounting standards, such loans, which are limited recourse borrowings in nature, are deemed to represent the issue of in-substance call options by ECT to shareholders, with any receipts from ECT borrowers that do not result in the release of shares accounted for as the receipt of option premium. Only when shares are released on receipt of loan repayments is an actual issue of share capital recognised.

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2021

Note 4. Revenue

	Consolidated	Consolidated
	31 Dec 2021	31 Dec 2020
	\$	\$
Sales of wood briquettes	251,927	-

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	Consolidated
	31 Dec 2021	31 Dec 2020
	\$	\$
<i>Major product lines</i>		
Wood briquettes	251,927	-
<i>Geographical regions</i>		
Australia	251,927	-
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	251,927	-

Note 5. Other income

	Consolidated	Consolidated
	31 Dec 2021	31 Dec 2020
	\$	\$
Net gain on derivatives	48,712	-
Government grants	1,200	79,000
Research and development tax incentive	361,364	421,893
Insurance recoveries	-	593,012
Other income	4,211	9,872
Other income	415,487	1,103,777

Net gain on derivatives

Net gain on derivatives represents the remeasurement to fair value during the period of the derivative liability attached to convertible promissory notes.

Government grants (COVID-19)

The consolidated entity received JobKeeper support payments from the Australian Government which were passed on to eligible employees and payments from the Australian and Victorian Governments as part of its 'Boosting Cash Flow for Employers' scheme. These amounts were recognised as income once there was reasonable assurance that the Company had complied with any conditions attached.

Research and development tax incentive

The Company has recognised a receivable related to the research and development tax incentive of \$344,215 at 31 December 2021 (30 June 2021: \$1,971,535) which relates to eligible expenditure (refer to note 6).

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2021

Note 6. Current assets - trade and other receivables

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Other receivables	46,660	-
Research and development tax incentive receivable	344,215	1,971,535
	<u>390,875</u>	<u>1,971,535</u>
GST receivable	<u>149,468</u>	<u>305,323</u>
	<u><u>540,343</u></u>	<u><u>2,276,858</u></u>

Note 7. Current assets - inventories

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Finished goods - at cost	<u>167,686</u>	<u>84,703</u>

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

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Plant and equipment - at cost	9,357,380	8,066,712
Less: Accumulated depreciation	<u>(5,735,892)</u>	<u>(5,516,730)</u>
	<u>3,621,488</u>	<u>2,549,982</u>
Fixtures and fittings - at cost	12,102	12,102
Less: Accumulated depreciation	<u>(12,102)</u>	<u>(12,102)</u>
	<u>-</u>	<u>-</u>
Office equipment - at cost	58,471	43,338
Less: Accumulated depreciation	<u>(42,892)</u>	<u>(41,717)</u>
	<u>15,579</u>	<u>1,621</u>
	<u><u>3,637,067</u></u>	<u><u>2,551,603</u></u>

Consolidated	Plant and equipment \$	Office equipment \$	Total \$
Balance at 1 July 2021	2,549,982	1,621	2,551,603
Additions	1,292,285	15,134	1,307,419
Depreciation expense	<u>(220,779)</u>	<u>(1,176)</u>	<u>(221,955)</u>
Balance at 31 December 2021	<u><u>3,621,488</u></u>	<u><u>15,579</u></u>	<u><u>3,637,067</u></u>

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2021

Note 9. Current liabilities - borrowings

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Research and development structured finance loan	1,180,248	1,259,039
Convertible promissory notes	94,875	-
Equipment finance	12,054	26,519
	<u>1,287,177</u>	<u>1,285,558</u>

Convertible promissory notes

On 7 September 2021, the Company raised \$3,000,000 through the issue of convertible promissory notes to sophisticated investors. On issue, the notes were initially recognised in the following components:

	Consolidated
	31 Dec 2021
	\$
Debt component recognised at amortised cost	1,799,863
Derivative liability component	300,000
Equity component	564,137
Share based payments reserve	336,000
	<u>3,000,000</u>

The debt component was measured using a discounted cash flow methodology where future contractual cash flows were discounted at a rate of 38.6%. This rate represents an estimated rate of interest applied at issue date by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option, as well as amortising the transaction costs associated with the issue of the notes.

The term of the convertible promissory notes is 24 months and they entitle the holder to interest at a rate of 5% p.a. (uncompounded). Where a redemption notice is given within 1 month following 2021 AGM or Second Meeting date (defined as on or before a date that is 6 months following the date of the 2021 Annual General Meeting), the amount payable is the total face value of the note plus capitalised interest ('outstanding amount') plus 10% of the face value. Where a redemption notice is given within 1 month following any other General Meeting Date, the amount payable is the outstanding amount plus 20%. As the Company does not have an unconditional right to avoid settlement within 12 months of balance date, the notes are classified as current liabilities.

The notes are convertible at the lower of \$0.01 or a 20% discount to the volume weighted average price. The derivative liability component represents the obligation to convert such notes at a 20% discount should holders exercise such an option. Such an option is measured at fair value. The equity component represents the value inherent in the ability of holders to exercise at \$0.01.

On 21 December 2021, notes with a carrying value of \$1,919,764 (principal plus accrued interest) were converted into shares and ECTOE options of the Company. The conversion into shares includes accrued interest whereas the conversion into options is based upon the initial convertible promissory note amount hence the number of shares and options issued are different. This resulted in the issue of 290,152,876 shares and 286,000,000 ECTOE options. The value of the derivative liability calculated as being extinguished was \$239,668. The value of the derivative remaining at reporting date is \$11,620. Notes with a face value of \$140,000 remain on issue at reporting date.

Note 10. Current liabilities - other financial liabilities

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Earn-out provision - COLDry	-	3,857
	<u>-</u>	<u>3,857</u>

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2021

Note 11. Non-current liabilities - other financial liabilities

	Consolidated		
	31 Dec 2021	30 Jun 2021	
	\$	\$	
Earn-out provision - COLDry	1,679,769	1,507,894	
Deferred consideration - Matmor	291,751	289,638	
	<u>1,971,520</u>	<u>1,797,532</u>	
	Earn-out creditor - COLDry	Deferred consideration - Matmor	Total
Opening balance (current and non-current liabilities)	1,511,751	289,638	1,801,389
Remeasurement to fair value (charge to profit or loss)	168,018	2,113	170,131
Closing balance (current and non-current liabilities)	<u>1,679,769</u>	<u>291,751</u>	<u>1,971,520</u>

Note 12. Equity - issued capital

	Consolidated			
	31 Dec 2021	30 Jun 2021	31 Dec 2021	30 Jun 2021
	Shares	Shares	\$	\$
Ordinary shares - fully paid	1,320,152,614	10,000,929,918	82,906,006	81,091,892
Treasury shares	4,500,000	55,000,000	-	-
ELF share capital	210,654,588	1,775,320,034	-	-
	<u>1,535,307,202</u>	<u>11,831,249,952</u>	<u>82,906,006</u>	<u>81,091,892</u>

Movements in ordinary share capital	Date	No of shares	\$	
Balance	1 July 2021	10,000,929,918		81,091,892
Consolidation of share capital	1 July 2021	(9,000,836,396)		-
Share based payments	1 July 2021	1,000,000	\$0.010	10,000
Share based payments	30 August 2021	9,000,000	\$0.010	90,000
Equity component of convertible promissory notes	7 September 2021	-		384,136
Share based payments	4 October 2021	18,000,000	\$0.010	180,000
Share based payments	14 October 2021	1,877,415	\$0.010	18,774
Exercise of options	26 November 2021	2,000	\$0.030	60
Exercise of options	10 December 2021	26,800	\$0.030	805
Conversion of convertible promissory notes	21 December 2021	290,152,877	\$0.010	1,395,339
Share issue costs		-		(265,000)
Balance	31 December 2021	<u>1,320,152,614</u>		<u>82,906,006</u>

Movements in treasury shares	Date	No of shares	\$
Balance	1 July 2021	55,000,000	-
Consolidation of share capital	1 July 2021	(49,500,000)	-
Release of shares	14 October 2021	(1,000,000)	-
Balance	31 December 2021	<u>4,500,000</u>	-

Note 12. Equity - issued capital (continued)

Movements in ELF share capital	Date	No of shares	\$
Balance	1 July 2021	1,775,320,034	-
Consolidation of share capital	1 July 2021	(1,597,788,031)	-
Placement	30 August 2021	35,000,000	-
Share based payment	14 October 2021	(1,877,415)	-
Balance	31 December 2021	210,654,588	-

Ordinary shares

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

On 1 July 2021, the Company has (following shareholder approval) consolidated its issued capital on a 10 for 1 basis.

Treasury shares

Treasury shares are shares in the Company that are held by ECT Finance Ltd, a subsidiary of the Company, prior to their allocation to shareholders under equity loan funding (ELF) arrangements with shareholders.

Equity lending facility (ELF) share capital

The Company's subsidiary, ECT Finance Ltd, has entered into limited recourse loans with option-holders (Participants) allowing them to obtain finance to exercise share options issued by the Company. Shares in ECT were issued on exercise of options in accordance with the Loan and Security Agreement (the Agreement) of the Equity Lending Facility (ELF).

All shares issued pursuant to the ELF and which are financed by limited recourse loans are considered, for accounting purposes, to be options issued. As a result, neither the value of the loans receivable, nor the value of shares issued, are recognised in the financial statements. Where the company receives funds from Participants in the form of principal or interest, such amounts are treated as the receipt of option premium and recognised in the option reserve until the loan is settled. Loans expire within 2-3 years from issue and interest is charged at commercial rates of interest.

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

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2021

Note 12. Equity - issued capital (continued)

ECTOE Options on issue

ECTOE options on issue at the start of the year had an exercise price of \$0.003. On 1 July 2021, the Company's share capital and options were consolidated on the basis of 1 share/option for every 10 on issue.

Details of ECTOE options on issue during the year are as follows:

	Date	Movement	Balance
Balance of ECTOE options on issue	1 July 2021	-	2,440,206,487
Consolidation	1 July 2021	(2,196,185,753)	244,020,734
Placement	14 July 2021	50,000,000	294,020,734
Share based payments (lead manager fee – share placement)	30 August 2021	75,000,000	369,020,734
Share based payments (lead manager fee – share placement)	30 August 2021	3,000,000	372,020,734
Share based payments (lead manager fee – convertible promissory notes)	4 October 2021	150,000,000	522,020,734
Share based payments (lead manager fee – convertible promissory notes)	4 October 2021	15,000,000	537,020,734
Exercise of options	26 November 2021	(2,000)	537,018,734
Exercise of options	10 December 2021	(26,800)	536,991,934
Issue and placement (convertible promissory notes)	30 December 2021	286,000,000	822,991,934
Share based payments (issue of options to lead manager)	30 December 2021	3,000,000	825,991,934

Note 13. Equity - reserves

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Share-based payments reserve	538,958	-
Options reserve	882,379	118,285
	<u>1,421,337</u>	<u>118,285</u>

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Options reserve

The balance of the options reserve recognises the value of consideration received for options issued that remain unexercised and value of options issued on settlement of convertible promissory notes. Such options may include those issued as share-based payments and receipt of principal and interest on ELF loan repayments which are treated as receipt of option premium for accounting purposes. Movements in the reserve are provided below.

	Share based payments reserve	ECTOE options reserve	Total
Balance at 1 July 2021	-	118,285	118,285
Issue of options on settlement of convertible promissory notes	-	764,094	764,094
Share based payments issued during period	538,958	-	538,958
	<u>538,958</u>	<u>882,379</u>	<u>1,421,337</u>

Note 14. Fair value measurement

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

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

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

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

Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 Dec 2021	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<i>Liabilities</i>				
Derivative liability related to convertible promissory notes	-	-	11,620	11,620
Deferred consideration - Matmor Assets	-	-	291,751	291,751
Earn-out provision - COLDry IP	-	-	1,679,769	1,679,769
Total liabilities	-	-	1,983,140	1,983,140

Consolidated - 30 Jun 2021	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<i>Liabilities</i>				
Deferred consideration - Matmor Assets	-	-	289,638	289,638
Earn-out provision - COLDry IP	-	-	1,511,751	1,511,751
Total liabilities	-	-	1,801,389	1,801,389

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

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

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

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

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

Level 3 liabilities

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

Consolidated	Derivative liability Convertible promissory notes \$	Deferred consideration Matmor Assets \$	Earn-out provision COLDry \$	Total \$
Balance at 1 July 2021	-	289,638	1,511,751	1,801,389
Initial recognition	300,000	-	-	300,000
Remeasurement to fair value	(48,712)	-	-	(48,712)
Settlement on conversion of promissory notes	(239,668)	-	-	(239,668)
Losses recognised in profit or loss	-	2,113	168,018	170,131
Balance at 31 December 2021	11,620	291,751	1,679,769	1,983,140

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2021

Note 14. Fair value measurement (continued)

The level 3 liabilities unobservable inputs and sensitivity are as follows:

Description	Unobservable inputs	Potential range	Sensitivity
COLDry earn-out provision	Discount rate	14% - 24% (19% used)	A change in this rate of 5% would have an effect of: +5%: decreasing the carrying value of the liability by \$534,994 (and decreasing the loss); and -5%: increasing the carrying value of the liability by \$127,198 (and increasing the loss).
	Timing of production to discharge liability	Dec 2021 onwards	The rate of payment of the earn-out liability is linked to the expected timing of plant production. Obligations are currently forecast to commence next year from small production, escalating in forward years through commercial scale up. A change in timing of the commercial scale commencement of +1 year from that currently forecast would reduce the loss and liability by \$369,901.
Matmor deferred consideration	Discount rate	25% - 35% (30% used)	A change in this rate of 5% would have an effect of: +5%: decreasing the carrying value of the liability by \$100,975 (and decreasing the loss); and -5%: increasing the carrying value of the liability by \$80,778 (and increasing the loss).
	Timing of significant trigger events	Dec 2021 to Dec 2029	Should the next major trigger event and subsequent events be delayed by +1 year from that currently forecast, that would reduce the loss and liability by \$90,989.

Note 15. Commitments

Consolidated	
31 Dec 2021	30 Jun 2021
\$	\$

Capital commitments

Committed at the reporting date but not recognised as liabilities, payable:

Property, plant and equipment	1,208,505	586,228
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A contract for purchase of a property in Yallourn, Victoria for the Company's proposed hydrogen refinery project was entered into as per the Company's announcement to the market on 23 November 2021. Settlement of the purchase price amounting to \$950,000 will occur in February 2022.

\$258,505 (30 June 2021: \$586,228) of the above capital commitments relates to orders made for the equipment at Bacchus Marsh.

Purchasing commitments

On 28 May 2021, the Company signed a coal supply agreement with EnergyAustralia for the supply of lignite from their Yallourn mine (refer ASX announcement dated 3 June 2021). The agreement specified a minimum annual quantity to be purchased of 50,000 tonnes or other agreed amount for the next 5 years.

Note 16. Related party transactions

Parent entity

Environmental Clean Technologies Limited is the parent entity.

Note 16. Related party transactions (continued)

Transactions with related parties

During the current half year, the Company continued to rent a forklift from Glenn Fozard at a cost of \$750 per month (plus GST). The arrangement was initially for a 12-month period and has been extended on a month-to-month basis. This arrangement replaced a prior rental agreement for a less suitable and older forklift with another supplier which was costing the Company \$753 per month.

There were no other transactions with related parties during the current and previous financial half-year.

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

On 30 September 2021, Mr Glenn Fozard borrowed \$40,000 from the Company to fund his subscription to the convertible promissory note issue. The loan is interest bearing at a rate of 4.52% p.a. and is being repaid at \$5,000 per month. At 31 December 2021, the loan balance was \$30,000. Shares issued that relate to the remaining loan balance are escrowed until payment is made.

On 30 September 2021, Mr Ashley Moore Fozard borrowed \$20,000 from the Company to fund his subscription to the convertible promissory note issue. The loan is interest bearing at a rate of 4.52% p.a. and is being repaid at \$3,333 per month. At 31 December 2021, the loan balance was \$10,000. Shares issued that relate to the remaining loan balance are escrowed until payment is made.

Note 17. Events after the reporting period

Sale of Wood247 business

On 17 January 2022, the Company announced to the market its intention to sell the retail recycled hardwood briquette business, Wood247. This decision was made after the completion of its pilot period and a strategic review of the business. It was determined that the Wood247 business was inconsistent with the key strategic objectives of the Company with respect to Net Zero and hydrogen technologies.

Site Purchased for Proposed Hydrogen Refinery Project

On 22 February 2022, the Company settled the purchase of a site in Yallourn that will be suitable for its proposed hydrogen refinery project. Refer 'Review of Operations' section above for further details.

Convertible Promissory Notes

On 21 January 2022, the Company issued and allotted 8,646,713 fully paid ordinary shares and 8,500,000 ECTOE options upon the conversion of promissory notes as approved by shareholders at the Company's AGM in December 2021.

Environmental Clean Technologies Limited
Notes to the financial statements
31 December 2021

Note 17. Events after the reporting period (continued)

Release of Shares from Escrow

On 15 February 2022, 65,000,000 fully paid ordinary shares and 26,000,000 ECTOE options were released from escrow following receipt of \$650,000 which repaid the ELF's issued to Challenge Bricks and Roofing Pty Ltd and nominees. Refer ASX announcement 9 February 2022. A further 18,261,835 ECTOE options were released from another ELF in the name of Iain McEwin. These options were released to Mr McEwin in lieu of a performance fee for arranging the early repayment of the ELF issued to Challenge Bricks and Roofing Pty Ltd and nominees.

On 24 February 2022, 625,001 shares were released from escrow to both Glenn Fozard and James Blackburn in settlement of directors' fees payable in lieu of cash. The issue of shares in lieu of being paid in cash, which was approved by shareholders at the Company's 2020 AGM, is now complete.

InvestVictoria R&D loan

On 25 February 2022, the Company received \$788,000 which is the second and final tranche of its loan from InvestVictoria. This brings the total principal of the loan to \$1,968,000. The loan is secured by the Company's expected 2021/22 R&D incentive.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 18. Earnings per share

	Consolidated	Consolidated
	31 Dec 2021	31 Dec 2020
	\$	\$
Loss after income tax attributable to the owners of Environmental Clean Technologies Limited	<u>(1,903,827)</u>	<u>(217,973)</u>
	Cents	Cents
Basic loss per share	(0.187)	(0.028)
Diluted loss per share	(0.187)	(0.028)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>1,019,828,227</u>	<u>787,380,354</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>1,019,828,227</u>	<u>787,380,354</u>

The weighted average number of ordinary shares for the period ended 31 December 2020 has been restated for the effect of the consolidation of share capital on the basis of 1 shares for every 10 shares on issue completed on 1 July 2021, in accordance with AASB 133 'Earnings per share'.

	Number
Weighted average number of ordinary shares used in calculating basic earnings per share (before restatement)	7,873,803,544
Adjustment required by AASB 133 'Earnings per share'	<u>(7,086,423,190)</u>
Weighted average number of ordinary shares used in calculating basic earnings per share (after restatement)	<u>787,380,354</u>

Environmental Clean Technologies Limited
Directors' declaration
31 December 2021

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 2021 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



Glenn Fozard
Managing Director

28 February 2022
Melbourne

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Environmental Clean Technologies Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Environmental Clean Technologies Limited (the Company) and its subsidiaries (the Group), which comprises the statement of financial position as at 31 December 2021, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2021 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be the same terms if given to the directors as at the time of this auditor's review report.

Material uncertainty relating to going concern

We draw attention to Note 2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.



Responsibility of the directors for the 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 for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 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*.

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.

BDO Audit Pty Ltd

A handwritten signature in blue ink that reads 'Katherine Robertson'. Above the signature, the letters 'BDO' are written in a similar blue ink.

Katherine Robertson
Director

Melbourne, 28 February 2022