



Annual Report – Chairman’s Message

“Developments unfolding during the early months of the new financial year auger well to progress negotiations on Coldry commercialisation to binding legal agreements within the current financial year. If successful, the first Coldry plant could be in production and generating royalty income for ECT during the 2014 calendar year. Significant interest in Matmor has also developed recently including interest from leading, Asian based, steel producers”

Dear Shareholders,

The World Coal Association states “ as global demand for energy continues to rise – especially in rapidly industrialising and developing economies - energy security concerns become ever more important. To provide solid economic growth and to maintain levels of economic performance, energy must be readily available, affordable and able to provide a reliable source of power without vulnerability to long- or short-term disruptions.”

The position of coal in global energy markets remains critical

- 41% of today’s global power generation is coal based.
- Global primary energy needs will increase by 36% over the next twenty-five years
- Australia has almost one-quarter of the world’s lignite (brown coal) reserves of which, approximately 90% are located in Victoria.
- With Victorian reserves estimated to exceed 420 billion tonnes, lignite is an increasingly important resource.
- Victoria’s lignite is young, pristine coal. It is low in ash, sulphur and heavy metals.
- The high moisture content - 50 to 65% - has restricted the domestic use of this resource and makes export in its raw form economically unviable.
- ECT’s Coldry technology is the first of its kind - an economically attractive brown coal beneficiation technology that delivers a stable “black coal equivalent” ready for export and a net improvement in end-to-end CO2 exposure.

2011 has been testing a year for ECT. As reported to the market, the program to commercialise Coldry with Tincom of Vietnam via the Victoria Coldry project was terminated in May. In addition, there have been significant changes within the Board and management.

Since my appointment as Managing Director and Chairman, the Board has clarified the company’s purpose and developed a clear, action based strategy for the commercialisation of the company’s two core technologies.

As a result of this work, it was concluded that the Victorian Coldry project remains one of the most realistic opportunities to progress Coldry technology to commercialisation. The proposed location is ideal and the legal and commercial frameworks are established. Accordingly, ECT’s team is actively re-engaging with Tincom to establish the first commercial scale Coldry production facility.



**ENVIRONMENTAL CLEAN
TECHNOLOGIES LIMITED**

In addition, we are committed to

- Delivery of the Datang test burn sample
- Engagement of Arup for the delivery of a Design for Tender package
- Recapitalisation of the company
- Delivery of commercial opportunities throughout Asia

Given the turbulence of 2011, I wish to thank shareholders for their loyalty and ongoing support.

I want also to recognise the contribution made by fellow directors in assisting to stabilise the Company following the cancellation of the Tincom Agreement and significant changes within ECT's Board and management.

In particular, I wish to acknowledge the new Operations Management team lead by Ashley Moore as Chief Operating Officer and Executive Director. The team has settled in to their new responsibilities very well and have, in a short period of time, progressed Coldry and Matmor commercialisation opportunities with a number of Australian and Asian companies who have expressed significant interest in these technologies.

Our mission for the coming year is simple and compelling – the delivery of commercial outcomes that will create shareholder value.

Mike Davies
Chairman





ENVIRONMENTAL CLEAN
TECHNOLOGIES LIMITED

Financial Report

As at 30 June 2011





Contents

Contents	2
Company Details.....	3
Corporate Governance Statement	4
Directors' Report.....	8
Auditor's independence declaration	21
Annual financial statements	22
Consolidated Statement of Comprehensive Income.....	23
Consolidated Statement of Financial Position	24
Consolidated Statement Of Changes In Equity	25
Consolidated Statement Of Cash Flows.....	26
Notes To And Forming Part Of The Financial Statements.....	27
Directors' Declaration.....	61
Independent Audit Report	62
Corporate Directory.....	64





Company Details

Directors

Michael Davies	Managing Director, Executive Chairman (appointed 5 July 2011)
Stephen Carter	Non-Executive Director
Iain McEwan	Non-Executive Director (appointed 11 July 2011)
Ashley Moore	Executive Director (appointed 17 August 2011)

Secretary

John Osborne

Chief Operating Officer

Ashley Moore (appointed 17 August 2011)

Principal Registered Office in Australia

Level 8
530 Little Collins St
Melbourne Vic 3000

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

Securities Exchange

ASX
Level 45, South Tower
525 Collins Street
Melbourne Victoria 3000

Corporate Governance Statement

The Environmental Clean Technologies Limited (ECT) Board is committed to protecting shareholders' interests and keeping investors fully informed about the performance of the Company's businesses.

The Directors have undertaken to perform their duties with honesty, integrity, care and diligence, according to the law and in a manner that reflects the highest standards of governance. The Company's corporate governance benchmark and that of the Board is the ASX Corporate Governance Council's 'Revised Principles of Good Corporate Governance and Recommendations' ("ASX Corporate Governance Guidelines") and the Company's conformity or otherwise is reported in the following Corporate Governance Statement and, where appropriate, elsewhere in the Company's report. Further information regarding our corporate governance and Board practices can be found at our website, www.ectltd.com.au.

Within this context the Board provides strategic direction, guidance and oversight of management; facilitates accountability to our shareholders through defined roles and responsibilities for the Board and executive management; and ensures that there is a balance of power and appropriate authorisations to avoid any individual having sole authority. The Specific responsibilities of the Board are as follows.

- appointment of the Managing Director or Chief Executive;
- assessment of ECT's management performance, measured against clearly identified objectives;
- preservation of the integrity and credibility of ECT's businesses;
- prudent management of shareholders' funds;
- evaluation of opportunities for value-creating growth;
- involvement in the planning and review of the Company's strategic direction;
- approval of short and long term business plans;
- ensuring that there are effective environmental, health and safety procedures in place; and
- approval of accounts.

The Board delegates many of its responsibilities to the Managing Director or Chief Executive who are responsible to the Board for the day-to-day management of the Company. The relationship between the Board and management is a partnership that is crucial to the Company's long term success. The separation of responsibilities between the Board and management is clearly understood and respected. Importantly for ensuring the integrity of the accounts the Managing Director / Chief Executive provides a management representation letter to the Board for the financial statements that certifies that the Company's financial reports present a true and fair view of the results and the financial position of the Company and are in accordance with relevant accounting standards.

The following statement outlines the principal corporate governance practices followed throughout the financial year.

Shareholders

The shareholders of the Company elect Directors at the Annual General Meeting in accordance with the Constitution. All Directors are subject to re-election by rotation within three years, other than the Managing Director.

The Annual General meetings are held in Melbourne. Shareholders have the opportunity to express their views, ask questions about Company business and vote on other items of business for resolution by shareholders at the Annual General Meeting. It is proposed to hold the 2011 Annual General Meeting on Wednesday, 16th November 2011. The time and venue is to be advised with the Notice of Annual General Meeting. At the 2011 AGM Messrs Davies, McEwin and Moore will be required to be elected by shareholders pursuant to the Company's Constitution.

Communication with Shareholders

ECT is committed to complying with the continuous disclosure obligations of the Corporations Act and the Australian Securities Exchange Listing Rules. The Board recognises the significance of relevant and timely disclosure and has developed a Continuous Disclosure Policy that is available from the Governance section of the Company's website at www.ectltd.com.au.

ECT keeps the market informed through the annual report, half yearly report and by disclosing material developments to the Australian Securities Exchange (ASX) and the media as they occur.

From time to time, briefings and site visits are arranged to give those who advise shareholders and interested stakeholders a better understanding of the Company's operating facilities. In conducting briefings, ECT takes care to ensure that any price sensitive information released is made available to all shareholders (institutional and private) and the market at the same time. These announcements are lodged with the ASX and then posted on the Company's website at www.ectltd.com.au.

Composition of the Board

The composition of the ECT Board has undergone a major process of renewal since the balance date of 30 June 2011. In July 2011 three Directors resigned and subsequently three new Directors were appointed to ensure the Board is structured to deliver tangible results in the commercialisation of the Coldry technology. The Directors review the Board's performance and structure on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. As at the date of this Report the Directors are searching for a Non-Executive Director to round out the mix of expertise of the Directors.

As at 30 June 2011 the Board comprised an independent non-executive chairman and three additional non-executive directors. The Board currently comprises the Managing Director / Executive Chairman, two independent non-executive Directors and the Chief Operating Officer is an Executive Director of the Company. Independent Directors have no relationship with management or the Company that would interfere with the exercise of their independent judgment and are free from any interest and any business or other relationship which could materially interfere with their ability to act in the best interests of the Company.

At the present stage of the Company's development it is considered appropriate to have a Board that is hands on and integrally involved in the operations of the Company. As a result the Company does not conform with the ASX Corporate Governance Guidelines that the role of Chief Executive and Chairman be separate, or that there be a majority of independent directors on the Board.

The Board as currently constituted has the range of skills, knowledge and experience necessary to govern the Company and understand the economic sectors in which the Company operates, but as noted above the Company is searching for a Non-Executive Director to round out the mix of expertise of the Directors.

Board Committees

To assist in the execution of its responsibilities, the Board has four committees comprised of representative members of the Board.

The current Directors are members of each committee other than the Remuneration & Nominations Committee which comprises solely the non-executive directors and the Audit & Risk Committee that comprises the non-executive directors and the Managing Director. It is planned that when a new Non-executive Director is appointed the Audit & Risk Committee will similarly comprise solely of non-executive directors.

The office of the Company Secretary provides secretariat services for each of the Committees and the Board.

Audit and Risk Committee

The Audit and Risk Committee is currently chaired by independent director Stephen Carter with Iain McEwin and Mike Davies serving as members. The Managing Director being a member of this committee is not in conformity with the ASX Corporate Governance Recommendations and Guidelines however as an interim arrangement it is considered appropriate that Mr Davies expertise be drawn upon in the deliberations of this Committee. There is no CFO but an internal accountant who with the assistance of the Managing Director is responsible for the preparation of financial reporting packages for the Board. External accounting firm, RSM Bird Cameron is called upon to provide services as and when required. The committee meets with the Company's auditors, PKF, who attends meetings on at least a bi-annual basis prior to finalising half year and year-end financial statements.

The charter of the Audit and Risk Committee is shown in the Corporate Governance Policy and its responsibilities include assisting the Board to fulfil its fiduciary responsibilities by:

- considering the effectiveness of the accounting and internal control systems and management reporting, which are designed to safeguard company assets;
- serving as an independent and objective party to review the financial information;
- reviewing the accounting policies adopted within the Group;
- reviewing the quality of the external audit function; and
- establishing and maintaining a risk identification process, effective risk management and reporting.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is currently chaired by Iain McEwin with independent director Stephen Carter serving as the other member. This committee has the responsibility of advising the full Board on matters pertaining to executive remuneration and incentive programs and overseeing Board performance, considering the on-going requirements of the Board and the appointment of new directors if considered appropriate.

Strategic Planning Committee

The Strategic Planning Committee is currently chaired by the Managing Director, Mike Davies and all the other directors serving as members. This committee has the responsibility for the development and maintenance of the Company's strategic plan.

Capital Raising Committee

The Capital Raising Committee is currently chaired by Mr Carter and all the other directors serving as members. The Committee was formed to consider various funding options available to the Company to finance the development and commercialisation of the Coldry and Matmor technologies and meet ongoing working capital requirements.

Independent Professional Advice

All Directors have the right of access to relevant Company information and the Company's executives, subject to prior consultation with the Chairman, may, at the Company's expense, seek independent professional advice regarding their responsibilities. During the year the Board did avail itself of external legal advice.

Internal Controls and Management of Risks

The management of risk is important in the creation of shareholder value and is a high priority for the Board and management.

The Company has a framework in place to safeguard the Company's assets and interests and ensure that business risks are identified and properly managed. This includes procedures and limits to manage financial risk associated with exposures to foreign currencies and financial instruments. To assist in discharging this responsibility the Board has in place a control framework which includes the following:

- an annual business plan, approved by the Directors, incorporating financial and non-financial key performance indicators;
- regular reporting to the Board on a number of key areas including safety, health, insurance and legal matters;
- adoption of clearly defined guidelines for capital expenditure including annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested; and
- a comprehensive insurance program, including risk assessment analysis and plans to mitigate identifiable or foreseeable risks.

Ethical Standards

The Company has established procedures and guidelines to ensure that the highest ethical standards, corporate behaviour and accountability are maintained. The Board has a Code of Conduct for Directors which establishes guidelines for their conduct in matters such as ethical standards and conflicts of interests. The Code is based on that developed by the Australian Institute of Company Directors and is published in the Governance section of the Environmental Clean Technologies Limited website at www.ectltd.com.au.

The Directors note the new ASX Corporate Governance Council Recommendation for companies is to establish a policy concerning diversity. The Company does not comply with this recommendation nor does it expect to in the near term. The establishment of policies regarding the structure and make-up of the Company's workforce prior to establishing the commerciality of the Company's technology is considered by the Directors to be premature.

Directors' Share Dealings

ECT has a Securities Trading Policy which establishes rules for Directors and senior management in dealing in the Company's securities consistent with the requirements of the ASX Listing Rules and Guidance Notes.

The Directors' Securities Trading Policy includes the following:

- Directors must consult with the Chairman of the Board before dealing in shares or other securities of the Company
- dealings (whether purchases or sales) in the Company's shares or other securities by related persons may not be carried out other than the period commencing two days and ending 30 days following the date of announcement of the Company's annual or half yearly results or a major announcement leading, in the opinion of the Board, to a fully informed market.
- A copy of the ECT Securities Trading Policy is available from the Governance section of the Environmental Clean Technologies Limited website at www.ectltd.com.au.

Directors' Report

The Directors submit their report on the consolidated entity consisting of Environmental Clean Technologies Limited (the Company) and the entities it controlled for the year ended 30 June 2011. Environmental Clean Technologies Limited and its controlled entities together are referred to as Environmental Clean Technologies or the consolidated entity or ECT in this Financial Report.

Directors

Unless indicated otherwise, the following persons were Directors of Environmental Clean Technologies Limited during the whole or part of the financial year and until the date of this report:

Mr Michael Davies - Diploma Civil Engineering, Graduate of Macquarie University Advanced Management Program - Appointed Non-Executive Director 5th July 2011 then subsequently became Managing Director / Executive Chairman 17th August 2011

Mr Stephen Carter, MBA, Dip Co. Dir., Dip App. Sc., Non-executive Director.

Mr Iain McEwin - Appointed Non-executive Director 11th July 2011

Mr Ashley Moore – Appointed Chief Operating Officer and Executive Director 17th August 2011

Mr Dave Woodall – MBA, Dip Mech Eng, FAICD, FAIM - Non Executive Chairman – Resigned 8th July 2011

Mr John Hutchinson OAM, RFD, ED, FIEAust, CPEng - Non-Executive Director, Deputy Chairman – Resigned 5th July 2011

Dr Dennis Brockenshire, OAM PhD Tech, MBA, BComm, Dip Elec. Eng., Dip Mech. Eng. FAICD, FIE (Aust), Non-Executive Director – Resigned 4th July 2011

Mr Larry Hanley, MBA, B.Com, Dip F.P. Appointed 1st April 2010 and ceased 26th November 2010

Principal Activities

Coldry Process

The Coldry process is ECT's first technology proven to be commercially viable as an economic method of dewatering brown coal to produce a black coal substitute.

Once applied, the mechanically simple Coldry process produces pellets that are stable, easily stored, can be transported and are of equal or better energy value than black coal. Essentially, Coldry works by initiating a chemical reaction to expel water from lignite and sub-bituminous coal. The following process is applied:

- Screening and adding a small quantity of water to the raw coal
- Initiating an exothermic chemical reaction to expel water through attritioning and extrusion of a plasticized mixture
- Warm air toughening of extruded mixture on a conditioning conveyer prior to pack bed dryer delivery
- Formation of Coldry pellets and removal/collection of moisture in a pack bed dryer
- Stockpiling of high energy Coldry pellets and distilled water ready for use or transport / export

The pellets can then be used in electricity generation in black or brown coal power stations and coal-to-oil applications. Existing brown coal power stations that consume Coldry pellets immediately gain benefits without the need for significant modifications to plant infrastructure including:

- Emissions savings
- Reduced ash costs
- Access to increased water supply and drought mitigation
- Improved thermal efficiency

These factors also drive the business case for deployment of super critical, black coal, technologies, with their ensuing efficiency and financial benefits, on brown coal mines. New power stations can also be built with confidence that they can secure supply of a 'Black Coal Substitute' based on abundant, under exploited, brown coal reserves that perform extremely well with next generation gasification technologies. The high chemical reactivity of Coldry pellets delivers higher yield per tonne of coal and enables the products use as an ideal front-end feedstock solution for coal-to-oil technologies, eliminating the need for costly and energy intensive oil slurry drying.

The Coldry process delivers a 'Gateway technology' that enables an ideal front-end feedstock solution for numerous new technology applications.

Matmor Process

Matmor is a clean, low-emission, one-step process for producing high grade iron using brown coal.

The Matmor process is positioned to revolutionise primary iron making, creating a high grade iron product from brown coal and ferrous media such as iron ore, mill scale or other waste tailings. The revolution lies in the design of our simple, low cost, low emission, patented Matmor retort using cheaper, alternative raw materials. Essentially the process involves blending wet brown coal (lignite) with iron ore or other ferrous metal bearing media to form a paste that is dewatered using the Coldry process. The pellets are then fed into a simple low cost, low emission patented Matmor retort where the remaining moisture is removed, the coal volatiles are driven off and the iron oxides are reduced to metal. The advantages of the Matmor process over existing steel making processes are:

- Replacement of expensive metallurgical coal with cheap, abundant lignite
- Replacement of expensive high grade Iron Ore (60%+Fe) with lower grade Iron Ore
- Capital equipment is estimated at 50% less than traditional blast furnaces
- Process requires significantly less heat / energy
- Able to recover baghouse dust, millscale and other waste materials
- Can be adapted to produce Zinc, Nickel, Chromium and Lead

Intellectual Property

In June 2009, the Company purchased the Coldry intellectual property from the Calleja Group after approval from the members at a General Meeting on 4th March 2009. The Calleja Group remains the owner of the Matmor technology but ECT has an exclusive right with the Calleja Group, under a Participation Agreement, through its subsidiary Asia Pacific Coal and Steel Pty Ltd to licence the Matmor technology and ultimately purchase that intellectual property as well.

The Coldry process is covered by patents, or pending patents in all major markets with significant brown coal deposits.

Significant Changes and Key Events

The following significant changes in the state of affairs of the company occurred during the financial year:

- In July 2010 iron oxide test work commenced on samples provided by Gulf Mines Limited using the Matmor process.
- In August 2010 ECT received a \$308,865 refund for its research and development activities for the 2008 financial year and was issued with a patent for Coldry China.
- In October 2010 ECT formed a strategic alliance with JC Steele and signed a funding agreement with La Jolla Cove investors whereby ECT will issue a series of convertible notes to La Jolla Cove with a total issue price of up to US\$2,500,000.
- In October 2010 ECT achieved a milestone in securing Coldry process intellectual property in Australia by receiving an innovation patent.
- In November 2010 ECT received a \$224,737 refund for its research and development activities for the 2009 financial year.
- In November 2010 Mr Larry Hanley ceased to be a director of the company and ECT issued its first convertible note (US\$400,000) to La Jolla Cove.
- In December 2010 ECT issued its second convertible note (US\$400,000) and La Jolla Cove partially converted the note issued on 4 November 2010.
- In February 2011 the collaborative upgrade of ECT's Coldry Pilot Plant with JC Steele concluded successfully and ECT signed its first local Coldry sale with Maryborough based, BAIC Protein.
- In March 2011 ECT advised it will be providing a Small Shareholdings Sale Facility to shareholders with a shareholding of less than A\$500 worth of ordinary shares.
- In April 2011 the company executed a Joint Venture Agreement (JVA) and received a Parent Company Guarantee from TinCom for Victoria Coldry Pty Ltd's project to construct a 2 million tonne per annum Coldry Black Coal Equivalent (BCE) production plant in Victoria's Latrobe Valley. TinCom agreed to provide Victoria Coldry initial funding of \$500,000 by 30 April 2011 and \$1,000,000 by 30 May 2011, plus all subsequent project funding.
- In May 2011 TinCom deposited \$500,000 into the Joint Venture but this amount was subsequently refunded as the Joint Venture was terminated due to two conditions not being fulfilled, being the provision of further funding and a formal opinion on the Thang Long Parent Company Guarantee. In addition, a provision of the JVA requiring the entering into a Design for Tender agreement with consulting engineers Arup by 30 April 2011 was not satisfied. The associated Coldry Technology Licence Agreement between ECT Coldry Pty Ltd and Victoria Coldry Pty Ltd also lapsed in accordance with its terms because the conditions precedent under the JVA were not satisfied.
- In May 2011 the company's small shareholding sale facility was completed. ECT sold on behalf of 1,536 eligible shareholders a total of 6,661,069 ESI ordinary shares at a sale price of 2.3 cents per share.
- In May 2011 ECT signed a Coal Supply Agreement with China Datang Corporation.
- In June 2011 ECT enhanced its management team with the appointment of Mr Warrick Boyle to the position of Manager – Product Development & Operations and the company's Coldry patent advanced to final stages in the USA.

Operating Results

The consolidated loss of the consolidated entity after providing income tax and eliminating non-controlling interests was \$3,121,709 (2010: (\$3,728,403)).

Review of Operations

Coldry

ECT has achieved a number of key steps during the period.

During August the Coldry Patent was issued in China, giving further effect to the protection in one of our key target markets. Locally in Australia, an Innovation Patent was issued for Coldry in September, 2010.

On the technology development front, ECT partnered with world leading extrusion equipment manufacturer JC Steele, striking a deal involving equipment partnering, provision of pilot plant scale equipment and operational optimisation. This activity has provided valuable data for the refinement and confirmation of assumptions in our commercial scale design, and progressively enhanced finished product quality.

Business Development activity saw several visits to key prospects in China during November and December resulting in a Memorandum of Understanding with China Datang, followed by an agreement in May to produce and test a sample lot for product validation purposes.

Despite these positive advancements there was a set back when ECT's flagship Victoria Coldry project Joint Venture Agreement was terminated with Vietnamese partner TinCom in May. The termination was the result of TinCom not meeting certain conditions precedent. ECT subsequently announced its intention to pursue the Victorian Coldry project, commencing with a capital raising during September, leading to the Design for Tender (DFT) to commence shortly thereafter. The DFT is a precursor to determining the Guaranteed Maximum Price (GMP) which, along with a suitable Coal Supply Agreement will underpin financing. Phase two of the design work, the Design for Construction (DFC) will follow the DFT and precede construction, which subject to planning and approvals timeframes, is targeted for completion and commissioning in 2014.

Matmor

During the year tests were conducted on several iron oxide sources. Gulf Mines, who own the Nowa Nowa resource in Victoria supplied magnetite ore for processing. Initial testing proved positive, with high metallic yield achieved. Magnetite is a problematic iron ore for traditional blast furnace iron making processes, requiring pre-processing via a process called sintering. Matmor is able to process Magnetite in a single step. Further, the Nowa Nowa ore contains lower concentrations of iron than is desirable for export. However, with crushing and magnetic separation, the Matmor process is capable of concentrating the iron before smelting. These factors position Matmor well for future development either as an iron ore or waste iron oxide (e.g. mill scale or nickel tailings) process.

Dividends

No dividends were paid or recommended by the Directors.

Significant Events after the Balance Date

There has been a number of significant event's occurring after balance date which have been detailed in Note 28.

Future Developments and Results

Coldry

ECT's main focus is to progress the Design for Tender (DFT) for the Victorian Coldry project, with the aim of achieving the first commercial scale deployment of the Coldry technology by 2014.

Running parallel to this are several business development initiatives including the Coldry validation test with China Datang, the pursuit of additional opportunities in the Chinese market and the progressive development of opportunities in Asia.

Matmor

While the Company has focused on advancing Coldry, Matmor is positioned to commence the next step in scale up on the commercialisation pathway; pre-feasibility work on the design of the pilot plant based on the completed design briefing work. Several parties have shown interest in partnering to develop the pilot plant. It is important to note that Matmor utilises a slightly modified version of the Coldry process to create the 'composite pellets' which are fed into the Matmor retort to produce iron. Consequently the Board and Management believe it prudent to proceed with the Coldry DFT in order to leverage that engineering work prior to commencing further work on Matmor.

Environmental Regulation and Performance

ECT will be subjected to significant environmental regulations under both Commonwealth and State legislation once production activities commence. The Directors will actively monitor compliance with these regulations and will adopt a best practice environmental compliance system. As at the date of this report, the Directors are not aware of any material breaches of any regulations that currently apply to the company.

Information on Directors

Details of the Directors' qualifications and experience are set out as follows:

Mr Michael Davies, Dip Civ(Eng), Grad Macquarie University Adv Mgt Program – Managing Director, Executive Chairman. Appointed 5 July 2011

Mike is an experienced senior manager having spent fourteen years in General Manager and CEO/Managing Director roles. The largest part of Mike's career was spent in the employment of Caterpillar Inc., the global leader in the mining and construction equipment industries, and of Caterpillar dealers including Hastings Deering Limited and Gough Group (New Zealand) Limited. He was CEO/Managing Director of Gough Group Limited between 1992 and 1997. Mike was also CEO/Managing Director of Joy Mining Machinery Australia Limited, the Australian subsidiary of Joy Global Inc., the global leader in underground coal mining equipment, between 1997 and 1999, before commencing his consulting business. Mike has had extensive exposure to the mining industry in Australasia, USA, Europe, Asia and Africa. Mr Davies is not and has not been a director of any publically listed company in the past three years.

Mr Davies was appointed a Director of the Company in July 2011 and became Managing Director and Executive Chairman in August 2011. He is currently the Chairman of the Strategic Planning Committee and a member of the Audit and Risk Committee and Capital Raising Committee.

Mr Stephen Carter MBA, Dip Co. Dir., Dip App. Sc., FAICD - Non-Executive Director.

Stephen has extensive experience in delivering strategic projects including the commissioning of Crown Casino, the commercial preparation for the integration of Ansett/Air New Zealand, delivery of a multi-million dollar funding package for the redevelopment of the Melbourne Showgrounds, the review and transformation of Air New Zealand's engineering division and the commercial repositioning of Spotlight Pty Ltd. Mr Carter is not and has not been a director of any other publicly listed company in the past three years.

Mr Carter was appointed as Director of the Company in May 2009 and is currently the Chairman of the Capital Raising Committee and Audit and Risk Committee and a member of the Remuneration and Nomination Committee and Strategic Planning Committee.

Mr Iain McEwin, - Non-Executive Director. Appointed 11 July 2011

Iain has considerable business experience in the ownership and operation of his own business as a supplier to the building and construction industry. Iain is a key Shareholder in ECT. Mr McEwin is not and has not been a director of any other publicly listed company in the past three years.

Mr McEwin was appointed a Director of the Company in July 2011 and is Chairman of the Remuneration & Nomination Committee and a member of the Audit and Risk Committee, Strategic Planning Committee and Capital Raising Committee.

Mr Ashley Moore - BEng(Chem), MIEAust, CPEng, Chief Operating Officer, Executive Director from 17 August 2011

Ashley is a graduate of Melbourne University in chemical engineering and is a Chartered Professional Engineer. He has extensive industry experience in all facets of supply chain management, sales and marketing and major project delivery from more than 25 years in the industry. Ashley joined ECT in October 2009 as Business Manager, Coldry, during which time he displayed exemplary leadership and team building skills. Mr Moore is not and has not been a director of any other publicly listed company in the past three years.

Mr Moore was appointed to the positions of Chief Operating Officer and Executive Director of the Company in August 2011. He is currently a member of the Strategic Planning Committee and Capital Raising Committee.

Dave Woodall – MBA, Dip Mech Eng, FAICD, FAIM - Non Executive Chairman (Retired 8 July 2011)

Mr Woodall was a Non-executive Director and Chairman of ECT for 3 years (appointed April 2008). He is a very experienced director with a background of senior roles and board positions in a wide range of large public companies. Mr Woodall is not and has not been a director of any other publicly listed company in the past three years.

Mr Woodall resigned as a Director of ECT in July 2011 however prior to his resignation his special responsibilities, other than Chairman of the Board included, Chairman of the Remuneration & Nominations Committee and ex-officio member of the Audit & Risk and Strategic Planning committees.

John Hutchinson AOM, RFD, ED, FIEAust, CPEng - Non-Executive Director (Resigned 5 July 2011)

Mr Hutchinson is a very experienced engineer in the coal and utilities field with senior positions with the State Electricity Commission of Victoria and other entities operating in the Latrobe Valley. Mr Hutchinson is not and has not been a director of any other publicly listed company in the past three years.

Mr Hutchinson joined the ECT Board in June 2007 and resigned as a Director of ECT in July 2011 however prior to his resignation his special responsibilities included being Chairman of the Audit & Risk committee.

Dr Dennis Brockenshire OAM, DTech, MBA, BComm, Dip ElecEng, Dip MechEng, FAICD, FIE(Aust) - Non-Executive Director (Resigned 4 July 2011)

Dr Brockenshire is a very experienced senior manager and director in the water and energy utility sectors. He is not and has not been a director of any other publicly listed company in the past three years.

Dr Brockenshire joined the ECT Board in May 2008 and resigned as a Director in July 2011 however prior to his resignation his special responsibilities included being Chairman of Remuneration & Nominations and the Strategic Planning committees. Dennis was a member of the Audit and Risk committee but resigned his membership in April 2010.

Mr Larry Hanley, MBA, B.Com, Dip F.P.- Non-Executive Director. Appointed 1 April 2010 (Ceased 26 November 2010)

Larry is an experienced director, public accountant and company auditor with extensive background in financial and capital management. No other directorships of listed companies were held at any time during the past three years.

Mr Hanley was appointed a Director of ECT in April 2010, however failed to be elected at the 2010 Annual General Meeting as required under the Constitution and ceased being a Director in November 2010. Special responsibilities included member of the Audit and Risk committee following the resignation from this committee of Dennis Brockenshire in April 2010.

Company Secretary

Mr John Osborne BSc, FRMIT(Management), DipAppCorpGov, ACIS, FFTA. (Appointed 1 August 2009)

Mr Osborne provides company secretarial services to the company on a part time basis through his consultancy company KLVR Pty Ltd. Mr Osborne has over 35 years of financial, commercial and company secretarial experience with listed companies and in consulting roles. He is presently company secretary of two ASX listed companies, Vision Group Holdings Limited and Paragon Care Limited. No directorships of listed companies were held at any time during the past three years.

Meetings of Directors

During the year ended 30 June 2011, the number of meetings of the Board of Directors and of each Board Committee and the number of meetings attended by each of the Directors are as follows:

	<i>Board Meetings</i>		<i>Audit and Risk Committee</i>		<i>Remuneration and Nomination Committee</i>		<i>Capital Raising Committee</i>	
	<i>No. eligible to attend</i>	<i>No. Attended</i>	<i>No. eligible to attend</i>	<i>No. Attended</i>	<i>No. eligible to attend</i>	<i>No. Attended</i>	<i>No. eligible to attend</i>	<i>No. Attended</i>
Dave Woodall	13	11	3	3	4	4	2	2
John Hutchinson	13	13	3	3	4	4	-	-
Dennis Brockenshire	13	11	-	-	4	4	-	-
Stephen Carter	13	13	-	-	-	-	8	8
Larry Hanley	5	5	1	1	-	-	4	4

There were no formal meetings of the Strategic Planning committee in the year ended 30 June 2011.

Retirement, Election and Continuation in Office of Directors

In accordance with the Constitution of Environmental Clean Technologies Limited, at each Annual General Meeting one-third (or a number nearest one-third) of the number of Directors (excluding any other Director appointed by the Directors either to fill a casual vacancy or as an addition to the existing Directors) must retire by rotation; and

- any other Director who has held office for three years or more since last being elected; and
- any other Director appointed to fill a casual vacancy or as an addition to the existing Directors.

Accordingly, at the 2010 Annual General Meeting John Hutchinson and Dennis Brockenshire retired as directors by rotation and Larry Hanley retired as a director as he had been appointed to fill a casual vacancy. All three directors being eligible offered themselves for re-election and John Hutchinson and Dennis Brockenshire were re-elected, however Larry Hanley was not elected and ceased to be a Director at the end of the AGM.

Michael Davies, Iain McEwin and Ashley Moore were appointed directors in July and August 2011 respectively, and under the terms of the Constitution will stand down and offer themselves for re-election at the 2011 Annual General Meeting. Also under the Constitution, at the Annual General Meeting, one third of directors, rounded to the nearest one third, must stand down and Mr Stephen Carter, being the longest serving director will stand down. Mr Carter, being eligible, will offer himself for re-election at the 2011 Annual General Meeting.

The aggregate non-executive director remuneration is determined by a general meeting. The most recent determination was at the Annual General Meeting held on 10 September 2008 where the shareholders approved an aggregate remuneration of \$250,000.

Remuneration Report (Audited)

Principles used to determine the nature and amount of remuneration

The Board through the Remuneration & Nominations Committee is responsible for making recommendations on remuneration packages and policies applicable to the Board members and senior executives of the Company. The Company has in the past provided equity based short term and long term incentive based upon achievement of pre-determined performance criteria.

The Board's remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. Directors and executives' remuneration is arrived at after consideration of the level of expertise each director and executive brings to the Company, the time and commitment required to efficiently and effectively perform the required tasks and after reference to payments made to directors and executives in similar positions in other companies.

Service Agreements

No directors were appointed on service agreements during the year in their capacity as directors. Each director has a written agreement governing his service as a director. There are no termination benefits payable to directors or executives.

By consultancy agreement effective 1st August 2009, the Company engaged KLVR Pty Ltd of which John Osborne is the sole director, to support the Company's secretarial functions. The contract with KLVR Pty Ltd can be terminated by either party providing three months written notice of termination.

Post year end Mr Davies was engaged as Managing Director and Executive Chairman of the Company through a consultancy agreement dated 17 August 2011 with Davies Management Services Pty Ltd, of which Mr Davies is the sole director. The contract can be terminated by either party providing six months written notice of termination.

Chief Executive Pay

The Chief Executive, Mr Galtos, pay and reward framework had three components:

- base pay and benefits, including superannuation
- short-term performance incentives upon the satisfaction of set performance targets, and
- long-term incentives upon the satisfaction of set performance targets.

Mr Galtos resigned on 15 August 2011 and his remuneration package as Chief Executive is detailed in the table on page 17.

Following Mr Galtos resignation, Mr Davies was appointed Managing Director / Executive Chairman and Mr Moore as Chief Operating Officer (COO) and an Executive Director.

Mr Davies is engaged as Managing Director and Executive Chairman of the Company through a consultancy agreement with Davies Management Services Pty Ltd as detailed in the service agreements above. Mr Davies services are charged at \$1,500 per day and there are no other benefits payable for Mr Davies acting as Managing Director and Executive Chairman under the agreement.

Mr Moore is an employee of the Company and as COO has a base remuneration of \$195,000 per annum plus superannuation. There are no other benefits or any further emolument for acting as an Executive Director. Mr Moore's employment may be terminated by either party providing 6 months written notice of termination.

Details of remuneration

Details of the remuneration of the directors and the key management personnel of ECT and the Environmental Clean Technologies Ltd Group are set out in the following tables. The key management personnel of both ECT and the Environmental Clean Technologies Ltd Group for the 2011 financial year are:

- Mr Dave Woodall - Non Executive Chairman (Retired 8 July 2011)
- Mr John Hutchinson - Non-Executive Director, Deputy Chairman (Resigned 5 July 2011)
- Dr Dennis Brockenshire - Non-Executive Director (Resigned 4 July 2011)
- Mr Stephen Carter - Non-Executive Director
- Mr Larry Hanley - Non-Executive Director (appointed 1 April 2010 and ceased 26 November 2010)
- Mr Kosmas Galtos - Chief Executive from 1 May 2008. Mr Galtos became a permanent employee of the company on 1 January 2009 (resigned 15 August 2011)
- Mr John Osborne - Company Secretary from 1 August 2009



In the 30 June 2011 financial year, the directors consider that there are only two individuals who meet the definition of executive. All directors and executives are employed by the parent entity and are all key management personnel.

	Short-term benefits			Post employment benefits		Share-based payment	Total
	Cash Salary, & Directors fees	Consulting fees	Non-monetary benefits	Superannuation	Accrued termination benefit	Shares/Options	
	\$	\$	\$	\$	\$	\$	
2011							
Directors							
J Hutchinson (resigned 5/7/11)	36,000	-	-	12,690	-	-	48,690
D Woodall (resigned 8/7/11)	48,000	-	-	4,320	-	-	52,320
D Brockenshire (resigned 4/7/11)	36,000	-	-	3,240	-	-	39,240
S Carter	36,000	-	-	-	-	-	36,000
L Hanley (ceased 26/11/10)	15,000	-	-	-	-	-	15,000
Executives							
K Galtos (resigned 15/8/11)	175,000	-	64,131	15,199	-	23,375	277,705
J Osborne	-	63,050	-	-	-	-	63,050
Total	346,000	63,050	64,131	35,449	-	23,375	532,005

In the 30 June 2010 financial year, the directors consider that there are only three individuals who meet the definition of executive. All directors and executives are employed by the parent entity and are all key management personnel.

	Short-term benefits			Post employment benefits		Share-based payment	Total
	Cash Salary, & Directors fees	Consulting fees	Non-monetary benefits	Superannuation	Accrued termination benefit	Shares/Options	
	\$	\$	\$	\$	\$	\$	
2010							
Directors							
J Hutchinson	36,000	-	-	-	-	-	36,000
D Woodall	48,000	-	-	4,320	-	-	52,320
D Brockenshire	36,000	-	-	3,240	-	-	39,240
S Carter	36,000	-	-	-	-	-	36,000
L Hanley (appointed 1/4/10)	9,000	-	-	-	-	-	9,000
Executives							
J Macpherson (resigned 5/8/09)	-	6,520	-	-	-	-	6,520
K Galtos	175,000	-	66,690	-	-	31,000	272,690
J Osborne	-	64,500	-	-	-	-	64,500
Total	340,000	71,020	66,690	7,560	-	31,000	516,270

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed Remuneration		At Risk – Short Term Incentive		At Risk – Long Term Incentive	
	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$
Directors						
J Hutchinson (resigned 5/7/11)	100%	100%	- %	- %	- %	- %
D Woodall (resigned 8/7/11)	100%	100%	- %	- %	- %	- %
D Brockenshire (resigned 4/7/11)	100%	100%	- %	- %	- %	- %
S Carter	100%	100%	- %	- %	- %	- %
L Hanley (ceased 26/11/10)	100%	100%	- %	- %	- %	- %
Executives						
K Galtos	91%	89%	8%	9%	1%	2%
J Osborne	100%	100%	- %	- %	- %	- %
J Macpherson (resigned 5/8/09)	100%	100%	- %	- %	- %	- %

Share-based Compensation

In April 2011 the Board approved a \$20,000 Short Term Incentive to the Chief Executive Mr Kos Galtos to be settled by the issue of 823,045 new ordinary shares at a 5% discount to the April VWAP. The issue of shares was deferred at the request of the Chief Executive and remained unpaid at 30 June 2011. The Board did not grant any Long Term Incentive rights to the Chief Executive in the 2011 year.

The Long Term Incentive rights issued to Mr Galtos in 2010 were to vest and be converted on a 1 for 1 basis into fully paid shares for nil consideration on or after 30th April 2012 conditional upon Mr Galtos remaining in the employ of the Company as Chief Executive on 30th April 2012. Mr Galtos's resignation on 15 August 2011 has resulted in these rights lapsing.

The terms and conditions of each grant of option affecting remuneration in the previous, this or future reporting periods are as follows:

Grant Date	Vesting Criteria – ECT Share Price	Exercise Date	Expiry Date	Exercise Price	Value per option at grant date
7 December 2007	\$0.30	7 December 2008	5 October 2010	\$0.25	\$0.041
30 April 2010	N/A	30 April 2012	30 April 2012	Nil	\$0.034

Options granted carry no dividend or voting rights.

Details of options over ordinary shares in the company provided as remuneration to each director or executive or former director or executive of Environmental Clean Technologies Limited are set out below. When exercisable, each option is convertible into one ordinary share of Environmental Clean Technologies Limited. Further information on how the options were valued is set out in note 24 to the financial statements.

Name	Number of options/rights granted during the year		Number of options vested during the year	
	2011	2010	2011	2010
Kos Galtos	-	441,176	-	-

The assessed fair value of options granted to individuals during the 2010 year has been recognised as an expense over a two year period on a straight line basis adjusted for the probability of the benefit vesting.

Additional Information

For each grant of options included in the tables above, the percentage of the grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the performance criteria was not met is set out below.

Name	Year Granted	Vested %	Forfeited %	Financial years in which options may vest	Financial years in which options expire	Maximum total value of grant yet to vest \$
Kos Galtos	2010	-	-	30/06/2012	30/06/2012	15,000

The earnings of the consolidated entity for the five years to 30 June 2011 are summarised below:

	2007 \$	2008 \$	2009 \$	2010 \$	2011 \$
Sales Revenue	306,819	439,216	273,811	884,085	274,987
EBITDA	(3,322,103)	(2,913,323)	(2,842,959)	(2,764,054)	(2,502,282)
EBIT	(3,323,591)	(3,124,384)	(2,985,153)	(3,358,560)	(3,073,761)
Loss after income tax	(3,406,993)	(3,473,180)	(3,358,932)	(3,728,403)	(3,121,709)

Consolidated entity performance and link to remuneration

The company's remuneration policy seeks to reward staff members for their contribution to achieving significant milestones but there is no direct link between remuneration paid and growth in the company's share price or financial performance.

The factors that are considered to affect total shareholders return are summarised below:

Share price at financial year end (\$)	0.180	0.075	0.068	0.032	0.010
Basic earnings per share (cents per share)	(1.36)	(1.20)	(0.14)	(0.54)	(0.38)

(End of Remuneration Report)



Share Options

At the date of this report, the following options to acquire Ordinary shares of the company were on issue:

	Number	Exercise Price	Expiry Date	Number Vested	Number Unvested
Unlisted ordinary options	794,806	\$0.0404	08/10/2011	794,806	-
Unlisted ordinary options	962,106	\$0.03795	17/11/2011	962,106	-
Unlisted ordinary options	360,999	\$0.03212	23/12/2011	360,999	-
Listed options (ESIO)	519,139,537	\$0.02	16/01/2014	519,139,537	-
	521,257,448			521,257,448	-

In the year ended 30 June 2011 no options were converted to ordinary shares. Last year 34,110,317 options were converted (at \$0.02 per share) to ordinary shares.

Insurance and Indemnities of Officers and Directors

The Company has not, during or since the financial year, in respect of any person who is or has been a director, officer or auditor of the company or a related body corporate, indemnified or made any relevant agreement for indemnifying against a liability incurred as a director, officer or auditor, including costs and expenses in successfully defending legal proceedings. Directors and Officers Liability Insurance premiums paid during the year ended 30 June 2011 amount to \$19,980 (2010: \$19,980) (ex GST).

Auditor's other services

No other services were provided by PKF during the year.

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 21.

Auditor

PKF continues in office in accordance with section 327 of the *Corporations Act 2001*.

Signed at Melbourne this 29 September 2011, in accordance with a resolution of the directors.

M Davies
Director



Chartered Accountants
& Business Advisers

**LEAD AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

**To: The Directors
Environmental Clean Technologies Limited and the entities it controlled during the
year**

I declare to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit, and
- no contraventions of any applicable code of professional conduct in relation to the audit.

**D J Garvey
Partner
PKF**

29 September 2011
Melbourne

Tel: 61 3 9603 1700 | Fax: 61 3 9602 3870 | www.pkf.com.au
PKF | ABN 83 236 985 726
Level 14, 140 William Street | Melbourne | Victoria 3000 | Australia
GPO Box 5099 | Melbourne | Victoria 3001

The PKF East Coast Practice is a member of the PKF International Limited network of legally independent member firms. The PKF East Coast Practice is also a member of the PKF Australia Limited national network of legally independent firms each trading as PKF. PKF East Coast Practice has offices in NSW, Victoria and Brisbane. PKF East Coast Practice does not accept responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

Liability limited by a scheme approved under Professional Standards Legislation.



Annual financial statements

Contents

Consolidated Statement of Comprehensive Income.....	23
Consolidated Statement of Financial Position	24
Consolidated Statement Of Changes In Equity	25
Consolidated Statement Of Cash Flows.....	26
Notes To And Forming Part Of The Financial Statements.....	27
Directors' Declaration.....	61
Independent Audit Report	62

These financial statements include the consolidated financial statements for the consolidated entity consisting of Environmental Clean Technologies Limited (ECT) and its subsidiaries. The financial statements are presented in the Australian currency.

ECT Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 8
530 Little Collins Street
Melbourne Vic 3000

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 11 and in the Directors' report on pages 8-20, both of which are not part of these financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial statements, and other information are available on our website.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

	Notes	CONSOLIDATED	
		2011 \$	2010 \$
Revenue from continuing operations	4	274,987	884,085
EXPENSES			
Corporate Costs		(719,652)	(1,202,171)
Depreciation and Amortisation		(571,479)	(594,506)
Employee Benefits Expense		(1,171,414)	(1,052,797)
Finance Costs		(47,948)	(369,843)
Legal Costs		(430,354)	(368,009)
Sales and Marketing		(90,275)	(216,133)
Occupancy Expense		(99,658)	(90,134)
Property, Plant & Equipment		(211,960)	(115,930)
Travel and accommodation		(254,621)	(216,780)
Unwinding of Earn Out		271,667	(265,287)
Other expenses from ordinary activities		(71,002)	(120,898)
Loss before income tax	5	(3,121,709)	(3,728,403)
Income tax (expense)/benefit relating to ordinary activities from continuing operations	6	-	-
Net result attributable to the members of Environmental Clean Technologies Limited		(3,121,709)	(3,728,403)
Total Comprehensive Income attributable to the members of Environmental Clean Technologies Limited		(3,121,709)	(3,728,403)
		2011	2010
		Cents	Cents
Earnings per security (EPS) from loss from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings per share	20	(0.38)	(0.54)
Diluted earnings per share	20	(0.38)	(0.54)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	CONSOLIDATED	
		2011 \$	2010 \$
CURRENT ASSETS			
Cash and cash equivalents	7	670,653	1,016,760
Trade and other receivables	8	63,557	56,632
Other current assets	9	90,457	410,126
Total Current Assets		824,667	1,483,518
NON-CURRENT ASSETS			
Investments accounted for using the equity method	10	2	2
Property, plant and equipment	11	270,001	234,315
Intangible assets	12	8,640,000	9,120,000
Total Non-Current Assets		8,910,003	9,354,317
Total Assets		9,734,670	10,837,835
CURRENT LIABILITIES			
Trade and other payables	14	453,840	454,023
Interest bearing liabilities	15	293,489	-
Provisions	16	80,088	58,885
Total Current Liabilities		827,417	512,908
NON-CURRENT LIABILITIES			
Other financial liabilities	17	654,620	926,287
Total Non-Current Liabilities		654,620	926,287
Total Liabilities		1,482,037	1,439,195
NET ASSETS		8,252,633	9,398,640
EQUITY			
Contributed equity	18	44,989,191	43,228,522
Reserves	19	221,033	433,497
Accumulated losses	19	(36,957,591)	(34,263,379)
TOTAL EQUITY		8,252,633	9,398,640

The above Statement of Financial Position should be read in conjunction with the accompanying notes.



Consolidated Statement Of Changes In Equity

For the year ended 30 June 2011

	Issued Capital	Reserves	Accumulated Losses	Total Equity
	\$	\$	\$	\$
Balance at 1 July 2009	37,716,486	1,195,346	(31,302,825)	7,609,007
Loss for the year	-	-	(3,728,403)	(3,728,403)
Total comprehensive income for the year	-	-	(3,728,403)	(3,728,403)
Share based payments	-	6,000	-	6,000
Transfer between reserve	-	(767,849)	767,849	-
Issue of shares by the Group	5,512,036	-	-	5,512,036
Balance 30 June 2010	43,228,522	433,497	(34,263,379)	9,398,640
Balance at 1 July 2010	43,228,522	433,497	(34,263,379)	9,398,640
Loss for the year	-	-	(3,121,709)	(3,121,709)
Total comprehensive income for the year	-	-	(3,121,709)	(3,121,709)
Issue of shares by the Group	1,760,669	-	-	1,760,669
Share based payments	-	3,375	-	3,375
Equity component of convertible notes issued	-	211,658	-	211,658
Transfer between reserve	-	(427,497)	427,497	-
Balance 30 June 2011	44,989,191	221,033	(36,957,591)	8,252,633

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

Consolidated Statement Of Cash Flows

For the year ended 30 June 2011

		CONSOLIDATED	
		2011	2010
Notes		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
	Receipts from customers (inclusive of goods and services tax)	-	-
	Receipts from R&D refunds	533,602	234,316
	Payments to trade creditors, other creditors and employees (inclusive of goods and services tax)	(3,035,668)	(3,234,645)
	Interest paid	-	(81,667)
	Interest received	63,750	67,398
	Net cash outflows used in operating activities	(2,438,316)	(3,014,598)
26			
CASH FLOWS FROM INVESTING ACTIVITIES			
	Payments for property, plant and equipment	(127,165)	(32,356)
	Net cash outflows used in investing activities	(127,165)	(32,356)
CASH FLOWS FROM FINANCING ACTIVITIES			
	Proceeds from issuing of shares and convertible notes	2,219,375	3,177,133
	Net cash inflows from financing activities	2,219,375	3,177,133
	Net (decrease)/increase in cash held	(346,107)	130,179
	Cash at the beginning of the financial year	1,016,760	886,581
	CASH AT THE END OF THE FINANCIAL YEAR	670,653	1,016,760
7			

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes To And Forming Part Of The Financial Statements

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are those of the consolidated entity consisting of Environmental Clean Technologies Limited and its controlled entities. As a result of the Corporations Amendment (Corporate Reporting Reform) Bill 2010 given Royal Assent on 28 June 2010, parent entity numbers do not have to be disclosed from financial years ended 30 June 2010, except for a required note disclosure, as displayed in Note 29.

These accounts were approved by the board of directors on 29 September 2011 and therefore only include information up until this date.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Interpretations and the *Corporations Act 2001*.

Other accounting standards that are applicable for the year ended 30 June 2011 are as follows:

- AASB 2009-8: "Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions";
- AASB 2009-10: "Amendments to Australian Accounting Standards - Classification of Rights Issues";
- AASB Interpretation 19: "Extinguishing Financial Liabilities with Equity Instruments";
- AASB 2009-13: "Amendments to Australian Accounting Standards arising from Interpretation 19".

These new accounting standards do not have any material impact on our financial results.

Compliance with IFRSs

The consolidated financial statements of Environmental Clean Technologies Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and liabilities (including derivative instruments) at fair value, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

(b) Principles of consolidation



Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Environmental Clean Technologies Limited (“company” or “parent entity”) as at 30 June 2011 and the results of all subsidiaries for the year then ended. Environmental Clean Technologies Limited and its subsidiaries together are referred to in these financial statements as the group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The acquisition of Asia Pacific Coal & Steel Pty Limited (“APCS”) on 25 May 2006 was treated as a reverse acquisition in accordance with AASB 3 – Business Combinations whereby APCS is considered the accounting acquirer on the basis that APCS is the controlling entity in the transaction. As a result, APCS is the continuing entity for consolidated accounting purposes and the legal parent Environmental Clean Technologies Ltd is the accounting subsidiary. Investments in subsidiaries are accounted for at cost in the individual financial statements of Environmental Clean Technologies Limited.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Financial Position respectively.

Investments in subsidiaries are accounted for at cost in the separate financial statements of Environmental Clean Technologies.

Joint ventures – joint venture entities

The interest in a joint venture partnership is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the net result of the partnership is recognised in the Statement of Comprehensive Income.

The net result on transactions establishing the joint venture partnership and transactions with the joint venture are eliminated to the extent of the group’s ownership interest until such time as they are realised by the joint venture partnership on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

Changes in ownership interests

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Environmental Clean Technologies Limited.

(c) Segment Reporting



The consolidated entity has applied *AASB 8 Operating Segments* which requires the entity to identify operating segments and disclose segment information on the basis of internal reports that are provided to, and reviewed by, the chief operating decision maker of the consolidated entity to allocate resources and assess performance. In the case of the consolidated entity the chief operating decision maker is the Board of Directors.

(d) Going concern

For the year ended 30 June 2011 the consolidated entity (group) had an operating loss before tax of \$3,121,709 (2010: \$3,728,404), and negative cash flow from operating activities of \$2,438,316 (2010: \$3,014,598). Furthermore, the consolidated entity does not have a source of income (with the exception of revenues received as detailed in item ii below) and is reliant on equity capital or loans from third parties to meet their 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 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. 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.

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

- i) In May 2011 ECT signed a coal supply agreement with China Datang Corporation (CDT) subsidiary, China Datang Overseas Investment. The agreement, which is a precursor to a commercial supply agreement of 2 million tonnes per year, covers the supply of 2,000 metric tonnes for a test burn in one of CDT's power stations in Shandong province.
- ii) In February 2011 ECT signed its first local market Coldry sale with Maryborough based, BAIC Protein, for 2,000 tonnes (\$100 per tonne) per year for 2 years.
- iii) ECT released a prospectus on 26 August 2011 for a non-renounceable rights issue to raise approximately \$3.8 million to fund the Datang test burn, complete stage one of the design for tender for the proposed production plant in the Latrobe Valley and support ongoing operations. The company has offered approximately 634 million new shares at \$0.006 per new share to raise the \$3.8 million before expenses on the basis of 2 new shares for every 3 fully paid shares in ECT. Subscribers for new shares will receive 1 new free option (ESIO) for every 2 new shares issued.
- iv) As at 30 June 2011 the company has on issue as part of the Share Purchase Plan and other placements, 497,264,535 options that can be converted by option holders to ordinary shares in the company at an exercise price of two cents per share. Should ECT's share price exceed 2c and all options converted into shares, the company will raise \$9.94 million.
- v) In order to further support ongoing operations ECT accepted an offer on 17 August 2011 from Menzies Securities Pty Ltd to place approximately 43.8 million fully paid ordinary shares at \$0.006 per share to raise \$262,500 from sophisticated investors. With each 2 new shares subscribed for, the investors received 1 new listed option (ESIO) being a total of approximately 21.9 million new options.

The company intends to undertake additional capital raisings during the year to ensure sufficient funds are available to complete the design for tender. The cash flow forecasts prepared by management, demonstrate that it has sufficient cash flows to meet its commitments over the next twelve months.

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.

Based on the above 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.

(e) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Environmental Clean Technologies Limited's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities, carried at fair value are reported as part of the fair value gain or loss.

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration, the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognised for the major business activities as follows:

Rendering of Services

Revenue from a contract to provide design and engineering services is recognised by reference to the stage of completion of the contract.

Interest Revenue

Interest revenue is recognised using the effective interest rate method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(g) Government grants



Grants from the Government are recognised as income where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary, to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the revenue on a straight-line basis over the expected lives of the related assets.

(h) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if there are offsetting deferred tax liabilities or it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.



Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Investment allowances

Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

Tax consolidation legislation

Environmental Clean Technologies Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Environmental Clean Technologies Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Environmental Clean Technologies Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Research & Development Tax Offset

A refund of eligible research and development expenditure is claimed using the R&D tax offset.

(i) Leases

Leases of assets under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases as distinct from operating leases under which the lessor effectively retains substantially all such risks and benefits. Property, plant and equipment acquired by finance leases is capitalised at the present value of the minimum lease payments as a finance lease asset and as a corresponding lease liability from date of inception of the lease. Lease assets are amortised over the period the entity is expected to benefit from the use of the assets or the term of the lease whichever is shorter. Finance lease liabilities are reduced by the component of principal repaid. Lease payments are allocated between the principal component of the liability and interest expense.

Other operating lease payments are charged as an expense in the period in which they are incurred.

Assets sold as sales-type finance leases are brought to account at the beginning of the lease as a receivable, being the present value of the minimum lease payments and any unguaranteed residual value. The fair value of the leased asset is recognised as revenue, and its carrying amount at the inception of the lease is recognised as the cost of sales to arrive at gross profit.

Operating lease revenues are recognised in the financial statements in the period in which they are receivable.



(j) Research and development expenditure

Expenditure in respect of research and development is charged to profit or loss as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

(k) Impairment of assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable but at least annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(l) Cash and cash equivalents

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents includes cash on hand and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

(m) Trade and other receivables

Trade receivables are recognised initially at fair value and thereafter are measured at amortised cost, using the effective interest method, less provision for impairment. They are non-derivative financial assets with fixed or determinable amounts not quoted in an active market and are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance for doubtful receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the Statement of Comprehensive Income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Comprehensive Income.

(n) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of



the items. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repair and maintenance items are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated on a straight line basis for all plant and equipment, with the exception of plant under construction, to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term. Estimates of remaining useful lives are made on a regular basis. The useful lives of plant and equipment are currently assessed at 1 – 15 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(k)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of Comprehensive Income. When revalued assets are sold, it is group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(o) Intangible Assets

Licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses.

Licences comprise intellectual property and registered trademarks and patents. Amortisation is calculated using the straight line method, over the estimated useful lives of 20 years.

(p) Trade and other creditors

Trade accounts payable and other creditors represent liabilities for goods and services provided prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

(q) Borrowings

Borrowings are initially recognised at fair value (less transaction costs) and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the borrowing using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid,



including any non-cash assets transferred or liabilities assumed, is recognised in the Statement of Comprehensive Income as other income or finance costs.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(r) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred except where they are incurred in the construction of a qualifying asset in which case the borrowing costs are capitalised as part of the asset during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(s) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(t) Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the end of reporting period are recognised in respect of employees' services up to the end of reporting period and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. All other short-term employee benefit obligations are presented as payables.

Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the non-current provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by the employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national Government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Superannuation

All employees of the group are entitled to benefits from the group's superannuation plan on retirement,



disability or death. The group has a defined contribution section within its plan. The defined contribution section receives fixed contributions from group companies and the group's legal or constructive obligation is limited to these contributions. The employees of the parent entity are all members of the defined contribution section of the group's plan.

Contributions to the employee superannuation plan are charged as expenses as the contributions are paid or become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(u) Earnings Per Share

Basic Earnings per Share

Basic earnings per share for continuing operations and total operations attributable to members of the company are determined by dividing:

- The result attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares. The number of shares used in the calculation at any time during the period is based on the physical number of shares issued.

Diluted Earnings per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(v) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

(w) Contributed equity

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example, as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(x) Goods and Services Tax (GST)



Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(y) New standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group does not anticipate early adoption of any of the reporting requirements stated below and does not expect these requirements to have any material effect on the Groups financial statements.

AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The group is yet to assess its full impact. However, initial indications are that it may affect the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

AASB 10 Consolidated Financial Statements (effective from 1 January 2013)

AASB 10 'Consolidated Financial Statements' is a replacement of IAS 27/AASB 127 'Consolidations'. The revised standard introduces a new, single definition of control which may impact which entities are consolidated into the Group. According to AASB 10 an investor controls an investee if and only if the investor has all the following:

- (a) power over the investee;
- (b) exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the ability to use its power over the investee to affect the amount of the investor's returns.

AASB 11 Joint Ventures (effective from 1 January 2013)

AASB 11 'Joint Ventures' modifies the definition of joint control and focuses on the rights and obligations of joint arrangements to determine the accounting treatment. It distinguishes between joint operations and joint ventures and may require use of the equity method for certain investments in jointly controlled entities which are currently proportionately consolidated. Adopting AASB 11 will result in the use of equity accounting and will result in a different presentation in the Statement of Comprehensive Income, Statement of Financial Position and Statement of Cash Flows.

AASB 12 Disclosure of Interests in Other Entities (effective from 1 January 2013)

AASB 12 provides the disclosure requirements for entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. As such, it pulls together and replaces disclosure requirements from many existing standards.



2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) *Income taxes*

The group is subject to income taxes in Australia. The group estimates its tax liabilities based on the understanding of the tax laws and advice from tax experts. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period such determinations are made.

In addition, the group has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised.

(ii) *Life of Intangible asset*

The group estimates the effective life of intellectual property to be 20 years and amortises the asset on a straight line basis. Where the resulting effective life differs from that recognised, the impact will be recorded in the Consolidated Statement of Comprehensive Income in the period such determinations are made,

(iii) *Estimated impairment of non-current assets*

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

(b) Critical judgements in applying the entity's accounting policies

(i) *Fair value estimate of debt and equity portions of Convertible notes*

AASB 139 *Financial Instruments: Recognition and Measurement* requires that convertible notes require separate accounting of the fair value of the debt and equity portions of the financial instruments. The fair value of the debt portion of the financial instrument is calculated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar pure debt financial instruments. The Group has therefore been required to make assumptions regarding the relevant current market interest rate that is available to the Group.

3. Segment Information

A segment is a component of the consolidated entity that engages in business activities to provide products or services within a particular economic environment. The company operates predominantly in the environmental and energy industry, and a single geographic segment being Australia. The board of directors assess the operating performance of the group based on management reports that are prepared on this basis.



	CONSOLIDATED	
	2011	2010
	\$	\$
4. Revenue from Continuing Operations		
Sales	7,678	-
Other revenue:		
Interest Received	42,572	88,576
R&D Tax Refund	224,737	543,182
Total operating revenue	274,987	631,758
Non-Operating revenue		
Gain on Settlement of Financial Liability	-	252,327
Total revenue	274,987	884,085

	CONSOLIDATED	
	2011	2010
	\$	\$
5. Expenses		
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	91,479	114,506
Amortisation	480,000	480,000
Finance and Borrowing Costs		
Interest and finance charges paid/payable	-	99,172
Unwinding of discount on convertible note	46,336	244,453
	46,336	343,625
Research & Development expenditure	881,355	307,219
Superannuation Expense	88,460	61,519
Rental expense relating to operating leases		
Minimum lease payments	54,744	51,948



	CONSOLIDATED	
	2011	2010
	\$	\$
6. Income Tax Expense		
(a) Income tax expense/(benefit)		
Current tax	-	-
Deferred tax	-	-
	-	-
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (Increase) in deferred tax assets	144,000	144,000
(Decrease) increase in deferred tax liabilities	(144,000)	(144,000)
	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss before income tax expense	(3,121,709)	(3,728,403)
Tax at the Australian tax rate of 30% (2010 – 30%)	(936,513)	(1,118,521)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Deferred tax asset movement not recognised	936,513	1,118,521
Income tax expense/(benefit)	-	-
(c) Gross deferred tax asset balance not recognised – potential benefit at 30% attributable to tax losses	726,908	313,388

Further details on deferred tax assets and deferred tax liabilities are provided at note 13.

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement sets out the funding obligations of members of the tax consolidated group. Payments are required to/from the head entity equal to the current tax liability/(asset) assumed and any deferred tax assets arising from unused tax losses assumed by the head entity, resulting in the head entity recognising inter-entity payable/(receivable) equal to the tax liability/(asset) assumed. Contributions to fund the any tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant authorities.

The head entity, in conjunction with other members of the tax consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

	CONSOLIDATED	
	2011	2010
	\$	\$
7. Current Assets – Cash and Cash Equivalents		
Cash at bank and on hand	670,653	1,016,760

	CONSOLIDATED	
	2011	2010
	\$	\$
8. Current Assets – Trade and Other Receivables		
Trade debtors *	8,446	-
Goods and services tax (GST) receivable *	55,111	56,632
	63,557	56,632

* Receivables are not past due and are not impaired

	CONSOLIDATED	
	2011	2010
	\$	\$
9. Current Assets – Other		
Deposits Paid	33,359	18,689
Loan – Kos Galtos (refer Note 25)	-	11,625
Other Debtors	100	21,179
Prepayments	39,944	32,714
R & D Tax Offset Receivable	-	308,865
Loan – Coldry East Kalimantan	17,054	17,054
	90,457	410,126



	CONSOLIDATED	
	2011	2010
	\$	\$
10. Non-Current Assets – Investments accounted for using the equity method		
Shares in Victoria Coldry Pty Ltd	1	1
Shares in Coldry East Kalimantan Pty Ltd	1	1
	2	2

	CONSOLIDATED	
	2011	2010
	\$	\$
11. Non-Current Assets - Property, Plant and Equipment		
Plant and equipment (P&E):		
Plant and Equipment – at cost	765,251	646,078
Less: Accumulated depreciation	(522,891)	(445,886)
	242,360	200,192
Furniture & Fixtures (F&F):		
Furniture & Fixtures – at cost	16,531	16,531
Less: Accumulated depreciation	(7,155)	(4,579)
	9,376	11,952
Office Equipment (OE):		
Office Equipment – at cost	47,460	39,468
Less: Accumulated depreciation	(29,195)	(17,297)
	18,265	22,171
	270,001	234,315



2011

	<i>Total</i> \$	<i>P&E</i> \$	<i>F&F</i> \$	<i>OE</i> \$
CONSOLIDATED				
Carrying amount at 1 July 2010	234,315	200,192	11,952	22,171
Additions	127,165	119,173	-	7,992
Disposals	-	-	-	-
Depreciation/amortisation expense	(91,479)	(77,005)	(2,576)	(11,898)
Carrying amount at 30 June 2011	270,001	242,360	9,376	18,265

2010

CONSOLIDATED

Carrying amount at 1 July 2009	316,465	284,944	11,216	20,305
Additions	32,356	10,876	3,718	17,762
Disposals	-	-	-	-
Depreciation/amortisation expense	(114,506)	(95,628)	(2,982)	(15,896)
Carrying amount at 30 June 2010	234,315	200,192	11,952	22,171



	CONSOLIDATED	
	2011	2010
	\$	\$
12. Non-Current Assets		
Intangible Assets		
Patents/Intellectual property – at cost	9,600,000	9,600,000
Less: Accumulated amortisation	(960,000)	(480,000)
	<u>8,640,000</u>	<u>9,120,000</u>
Reconciliation of Intangible Asset:		
Balance at the beginning of year	9,120,000	9,600,000
Additions	-	-
Disposals	-	-
Amortisation charged	(480,000)	(480,000)
Closing carrying value at end of year	<u>8,640,000</u>	<u>9,120,000</u>

	CONSOLIDATED	
	2011	2010
	\$	\$
13. Deferred Tax		
Deferred Tax Asset	2,592,000	2,736,000
Deferred Tax Liability	(2,592,000)	(2,736,000)
Net tax assets	<u>-</u>	<u>-</u>

The consolidated entity has recognised a deferred tax liability of \$2,592,000 as a result of the recognition of the Coldry Licence upon consolidation of the Coldry Unit Trust, amortised over its useful life of 20 years. The company (parent) has available to it, sufficient losses available to recognise a deferred tax asset to offset the tax liability recognised on consolidation. A deferred tax asset of \$2,592,000 has been recognised in the company accounts and offset against the deferred tax liability in the consolidated accounts.



	CONSOLIDATED	
	2011	2010
	\$	\$
14. Current Liabilities – Trade and Other Payables		
Trade payables	201,614	224,627
Other payables	252,226	229,396
	<hr/>	<hr/>
	453,840	454,023
	<hr/>	<hr/>

Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 27.

	CONSOLIDATED	
	2011	2010
	\$	\$
15. Current Liabilities – Interest Bearing Liabilities		
Convertible Note	293,489	-
	<hr/>	<hr/>
	293,489	-
	<hr/>	<hr/>

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

ECT signed a funding agreement on 28 October 2010 with La Jolla Cove investors whereby ECT will issue a series of convertible notes to La Jolla Cove with a total issue price of up to US\$2,500,000. As at 30 June 2011 eight convertible notes with a cumulative face value of US\$2,300,000 were issued during the year. The terms of these convertible notes include interest payable at 0% if the share price is above \$0.02 and 4.75% if it falls below \$0.02. The note holder is entitled to convert their notes at the lower of \$0.20 or at a 20% discount to the company's VWAP for the 15 trading days up to and including the conversion date. Following the issue of the new notes all but three have been fully converted as at 30 June 2011.

	CONSOLIDATED	
	2011	2010
	\$	\$
16. Current Liabilities - Provisions		
Employee Provisions	80,088	58,885
	<hr/>	<hr/>
	80,088	58,885
	<hr/>	<hr/>



	CONSOLIDATED	
	2011	2010
	\$	\$
17. Non-Current Liabilities - Other Financial Liabilities		
Earn Out Creditor	654,620	926,287
	654,620	926,287

	CONSOLIDATED	
	2011	2010
	\$	\$
18. Contributed Equity		
Balance at beginning of financial year	43,228,522	37,716,486
Issue of shares by the group	1,760,669	5,512,036
Balance at end of financial year	44,989,191	43,228,522

Reconciliation of Consolidated share movements

	No of shares	\$
Balance at 30 June 2009	584,886,556	37,716,486
Issue of shares as consideration for extension of Matmor	12,500,000	500,000
Issue of shares via placement	60,000,000	2,506,000
Issue of shares through conversion of convertible note	91,614,276	1,767,374
Issue of shares through other activities	1,582,309	56,455
Exercise of options through year	34,110,317	682,207
Balance at 30 June 2010	784,693,458	43,228,522
Issue of shares through conversion of convertible note	110,415,654	1,760,669
Balance at 30 June 2011	895,109,112	44,989,191

These ordinary shares give the holder voting rights in the company and entitle the holder to dividend distributions in proportion to the number of and amounts paid on the shares held.



18. Contributed Equity (Cont.)

Share Options

At 30 June 2011 the following options to acquire Ordinary shares of the company were on issue:

	Number	Exercise Price	Expiry Date	Number Vested	Number Unvested
Unlisted ordinary options	708,306	\$0.0559	25/09/2011	708,306	-
Unlisted ordinary options	794,806	\$0.0404	08/10/2011	794,806	-
Unlisted ordinary options	962,106	\$0.03795	17/11/2011	962,106	-
Unlisted ordinary options	360,999	\$0.03212	23/12/2011	360,999	-
ESIO	497,264,535	\$0.02	16/01/2014	497,264,535	-
	500,090,752			500,090,752	-

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital by reference to cashflow forecasts in relation to operating revenue and expenditure. The Group also monitors its capital expenditure requirements to identify any additional capital required. The gearing ratios at 30 June 2011 were as follows:

	CONSOLIDATED	
	2011	2010
	\$	\$
Total interest bearing liabilities	(293,489)	-
Less cash and cash equivalents	670,653	1,016,760
Net assets/(debt)	377,164	1,016,760
Total equity	8,252,633	9,398,640
Gearing ratio	Nil	Nil



19. Reserves and Accumulated Losses

Reserves

	CONSOLIDATED	
	2011	2010
	\$	\$
Share option reserve	9,375	433,497
Convertible notes reserve	211,658	-
Total reserves	221,033	433,497

Movements in reserves were:

Share option reserve

	CONSOLIDATED	
	2011	2010
	\$	\$
Opening balance	433,497	427,497
Fair value of options issued during the year	3,375	6,000
Transfer of fair value of options expired	(427,497)	-
Closing balance	9,375	433,497

Convertible note equity reserve

	CONSOLIDATED	
	2011	2010
	\$	\$
Opening balance	-	767,849
Equity component of convertible notes issue	211,658	-
Transfer between reserve	-	(767,849)
Closing balance	211,658	-

Accumulated Losses

	CONSOLIDATED	
	2011	2010
	\$	\$
Accumulated losses at the beginning of the financial year	(34,263,379)	(31,302,825)
Net loss attributable to members of the Group	(3,121,709)	(3,728,403)
Transfer between reserve	427,497	767,849
Accumulated losses at the end of the financial year	(36,957,591)	(34,263,379)



Nature and purpose of reserves

Share option reserve

The share option reserve is used to recognise:

- The fair value of options issued to employees but not exercised
- The fair value of options issued to employees

Convertible note equity reserve

The Convertible note equity reserve is used to recognise the fair value of the equity component of convertible notes issued by the Group.

Share based payments

During the 30 June 2011 financial year the company approved short term incentives to the Chief Executive Officer which consisted of:

- Shares: \$20,000 (823,045 fully paid ordinary shares at 2.4 cents).
- Options: Nil (2010: \$15,000)

The issue of shares was deferred at the request of the Chief Executive and remained unpaid at 30 June 2011. The Board did not grant any long term incentive rights to the Chief Executive in the 2011 year.

At the beginning of the year there were 1,941,176 share options from share based payments on issue.

During the year 1,500,000 options have expired and the remaining 441,176 options have subsequently lapsed after year end as a result of Chief Executive's resignation on 15 August 2011. At the date of the report, there are no share options that remaining outstanding from share based payments in the current or prior financial years.

No share options were exercised during the current reporting period from previously issued share based payments.

	2011	2010
	Cents	Cents
20. Earnings Per Share		
(a) Basic earnings per share		
Loss attributable to the ordinary owners of the Company	(0.38)	(0.54)
(b) Diluted earnings per share		
Loss from continuing operations attributable to the ordinary owners of the Company	(0.38)	(0.54)
Loss attributable to the ordinary owners of the Company	(0.38)	(0.54)



20. Earnings Per Share (cont.)

	2011	2010
	\$	\$
(c) Reconciliation of earnings used in calculating earnings per share		
Loss attributable to the ordinary owners of the Company used in calculating basic earnings per share	(3,121,709)	(3,728,403)
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	815,622,259	693,336,238

There are 500,090,752 (2010 – 547,252,838) weighted average number of share options excluded from the calculation of diluted earnings per share, that could potentially dilute basic earnings per share in the future, because they are anti-dilutive for either of the periods presented.

Since 1 July 2011, 56,801,730 new shares and 21,875,002 listed options (ESIO) have been issued:

21. Controlled Entities

Name	Country of Incorporation	Ordinary Share Consolidated Equity Interest	
		2011	2010
		%	%
Parent entity			
Environmental Clean Technologies Limited	Australia		
Controlled entities			
Asia Pacific Coal and Steel Pty Ltd	Australia	100%	100%
Enermode Pty Ltd	Australia	100%	100%
Maddingley Coldry Unit Trust	Australia	100%	100%
ECT Coldry Pty Ltd	Australia	100%	100%
ACN 109 941 175 Pty Ltd (Maddingley Coldry Pty Ltd)	Australia	100%	100%



22. Commitments and Contingent Liabilities
Participants agreement with Maddingley Associates

(a) 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 Environmental Clean Technologies Limited (“ECT”) on 25 May 2006.

As part of the participants agreement and deed of variation, APCS and ECT have committed to complete agreed milestones along an agreed critical path. A Deed of Variation was entered into on 30 June 2009 to extend the milestones for the development and construction of the first Matmor plant to 31 December 2014 and not 31 December 2011 as per the original milestones. The commitments and date of achievement of the milestones are as follows:

- Commence construction of the 6000 tonne per annum Matmor Steel Plant by 31 December 2012.
- Complete construction of the Matmor Steel Plant by 31 December 2014.

(b) 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 Matmor 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 noted above there is a potential loss to the consolidated entity if the group fails to meet the obligations and Maddingley exercise the option to purchase the Coldry Pilot Plant upgrades for \$1. At 30 June 2011 the upgrades had a net book value of \$242,340.

23. Remuneration of Auditors

During the year the following fees were paid/payable to the auditor of the Company and its related practices:

	CONSOLIDATED	
	2011	2010
	\$	\$
Assurance services		
<i>Audit and Review Services</i>		
Fees paid/payable	52,700	71,000
Other Services	-	-
	52,700	71,000



24. Key Management Personnel Disclosures

Directors

The following persons were directors of the Company during the financial year:

D Woodall – Non-Executive Chairman (Resigned 8 July 2011)

J Hutchinson – Non-Executive director (Resigned 5 July 2011)

D Brockenshire – Non-Executive director (Resigned 4 July 2011)

S Carter – Non-Executive director

L Hanley – Non-Executive director (Ceased 26 November 2010)

Other key management personnel

In addition, the following persons had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

J Osborne – Company Secretary

K Galtos – Chief Executive

Key management personnel compensation

	CONSOLIDATED	
	2011	2010
	\$	\$
<i>Short-term employee benefits</i>	473,181	477,710
<i>Post-employment benefits</i>	35,449	7,560
<i>Long term benefits</i>	-	-
<i>Share-based payments</i>	23,375	31,000
Termination Benefits	-	-
	<u>532,005</u>	<u>516,270</u>

Further information on key management personnel can be found in the remuneration report within the director's report.

Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issues on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report within the director's report.



24. Key Management Personnel Disclosures (cont.)

(ii) Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Environmental Clean Technologies Limited and other key management personnel of the Group, including their personally related parties, are set out below:

2011

	Balance at start of year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
K Galtos	3,191,176	-	-	-	3,191,176	2,750,000	441,176
D Brockenshire	550,000	-	-	-	550,000	550,000	-
J Hutchinson	550,000	-	-	-	550,000	550,000	-
L Hanley	11,606,845	-	-	3,050,000 ¹	14,656,845	14,656,845	-

Messrs Woodall and Carter did not own any options during the year.

2010

	Balance at start of year	Granted as compensation	Exercised	Other changes ²	Balance at end of the year	Vested and exercisable	Unvested
C Galtos	9,500,000	-	-	(9,500,000)	-	-	-
K Galtos	5,750,000	441,176 ³	-	(3,000,000)	3,191,176	2,750,000	441,176
Jan MacPherson (resigned 4/8/09)	1,550,000	-	-	-	1,550,000	1,550,000	-
D Brockenshire	550,000	-	-	-	550,000	550,000	-
J Hutchinson	550,000	-	-	-	550,000	550,000	-
L Hanley	11,606,845 (held at appointment)	-	-	-	11,606,845	11,606,845	-

Messrs Woodall and Carter did not own any options during the year.

¹ Purchased

² Expired

³ Options valued based on VWAP for month of April 2010



24. Key Management Personnel Disclosures (cont.)

Other transactions with directors and other key management personnel

Directors and Executives equity holding:

Fully paid ordinary shares issued by Environmental Clean Technologies Limited

2011

	Held at 1 July 2010 No.	Granted as compensation No.	Received on exercise of options No.	Other change No.⁴	Held at 30 June 2011
D Woodall	-	-	-	-	-
D Brockenshire	935,000	-	-	-	935,000
J Hutchinson	2,119,519	-	-	-	2,119,519
S Carter	-	-	-	-	-
L Hanley	4,007,824	-	-	(1,682,825)	2,324,999
J Osborne	-	-	-	-	-
K Galtos	2,110,294	-	-	-	2,110,294

2010

	Held at 1 July 2009 No.	Granted as compensation No.	Received on exercise of options No.	Other change No.⁵	Held at 30 June 2010
C Galtos	416,666	-	-	-	-
D Woodall	-	-	-	-	-
D Brockenshire	935,000	-	-	-	935,000
J Hutchinson	2,119,519	-	-	-	2,119,519
J Macpherson	375,000	-	-	-	375,000
S Carter	-	-	-	-	-
L Hanley	4,007,824 ⁶	-	-	-	4,007,824
J Osborne	-	-	-	-	-
K Galtos	1,375,000	735,294	-	-	2,110,294

⁴ Other changes refer to shares acquired on market.

⁵ Other changes refer to shares acquired on market.

⁶ Held on appointment.

25. Related party transactions

(a) Parent entities

The legal and ultimate parent entity within the Group is Environmental Clean Technologies Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 21

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 24.

(d) Loans to/from related parties

The following loans occurred with related parties:

	CONSOLIDATED	
	2011	2010
	\$	\$
<i>Loan to Kos Galtos</i>		
Balance at beginning of the year	11,625	27,750
Loan Drawdown	-	11,625
Loan Repayment	(11,625)	(27,750)
Balance at end of the year	-	11,625

The loan provided to Kos Galtos was an unsecured loan comprising of the consideration payable in relation to tax withheld from his short term incentive payment for the 2010 financial year. This loan has been provided interest free and repaid in monthly instalments not exceeding 12 months from 1 July 2010. Interest charged on the loan repaid during the year was nil. If this loan was provided on an arms length transaction, interest would have approximated \$705 based on an interest rate of 9% p.a.



CONSOLIDATED

2011
\$

2010
\$

26. Notes to the Statement of Cash Flows

**Reconciliation of Net Cash Flows from Operating Activities to
Net Loss from Ordinary Activities after Income Tax**

Operating loss after income tax	(3,121,709)	(3,728,403)
Depreciation and Amortisation	571,479	594,506
Unwinding of Earnout	(271,667)	265,287
Options	3,375	6,000
Unwinding of Discount on Convertible Note	46,336	343,625
Bad Debts	-	30,337
Share Discounts/Issues	-	266,695
<i>Changes in assets and liabilities (net of effects of acquisition and disposal of entities):</i>		
(Increase)/decrease in trade and other debtors	312,744	(259,031)
Increase/(decrease) in trade and other payables	(77)	(592,499)
Increase/(decrease) in provisions	21,203	58,885
Net cash outflow from operating activities	(2,438,316)	(3,014,598)



27. Financial Risk Management

Financial risk management

The Group's operations expose it to various financial risks including market, credit, liquidity and cash flow risks. Risk management programmes and policies are employed to mitigate the potential adverse effects of these exposures on the results of the Group.

Financial risk management is carried out by the Board and Chief Executive Officer on a regular basis by reviewing current and potential sources of funding, cashflow and operating/capital expenditure forecasts, to manage credit, liquidity and cash flow risk.

(a) Market risk

Foreign exchange risk

The Group's operations are currently solely within Australia, and therefore are not exposed to any foreign exchange risk.

Cash flow and fair value interest rate risk

The Group currently has minimal exposure to interest rate risk with its borrowings being a fixed rate convertible note.

As at the end of reporting period, the Group had no variable rate borrowings, as such the 2011 and 2010 reports would not be impacted by changes in interest rates.

Fluctuations in interest rates will not have any material risk exposure to the cash held in bank deposits at variable rates.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as exposures to customers, including outstanding receivables. For banks and financial institutions, only major Australian banking institutions are used. For customers, individual risk limits are set based on internal or external ratings in accordance with limits set by the Board.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of the financial assets. The company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the company.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group aims at maintaining flexibility in funding by keeping committed credit lines available to meet the Groups needs.

Maturities of financial liabilities

The tables below analyse the Group's and the parent entity's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.



27. Financial Risk Management (cont)

Group – 30 June 2011

	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>1 - 5 years</i>	<i>5 + Years</i>	<i>Total</i>
	\$	\$	\$	\$	\$
Non-Interest Bearing	(453,840)	-	-	-	(453,840)
Loans	-	-	-	-	-
Convertible Note	-	-	(293,489)	-	(293,489)
Earn Out	-	-	(654,620)	-	(654,620)

Group – 30 June 2010

	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>1 - 5 years</i>	<i>5 + Years</i>	<i>Total</i>
	\$	\$	\$	\$	\$
Non-Interest Bearing	(454,023)	-	-	-	-
Loans	-	-	-	-	-
Convertible Note	-	-	-	-	-
Earn Out	-	-	(926,287)	-	(926,287)

Parent – 30 June 2011

	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>1 - 5 years</i>	<i>5 + Years</i>	<i>Total</i>
	\$	\$	\$	\$	\$
Non-Interest Bearing	(453,840)	-	-	-	(453,840)
Loans	-	-	-	-	-
Convertible Note	-	-	(293,489)	-	(293,489)
Earn Out	-	-	(654,620)	-	(654,620)

Parent – 30 June 2010

	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>1 - 5 years</i>	<i>5 + Years</i>	<i>Total</i>
	\$	\$	\$	\$	\$
Non-Interest Bearing	(454,023)	-	-	-	-
Loans	-	-	-	-	-
Convertible Note	-	-	-	-	-
Earn Out	-	-	(926,287)	-	(926,287)

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

28. Events Subsequent to end of reporting period

The non-executive directors Dennis Brockenshire and John Hutchinson of ECT as at 30 June 2011 resigned on 4 and 5 July 2011 respectively and the Chairman, David Woodall, retired on 8 July 2011. Following the first resignation Michael Davies joined the Board as a non-executive director on 5 July 2011. Following Mr Woodall's retirement the company was suspended from official quotation from Friday, 8 July 2011 due to insufficient directors, however the appointment of Iain McEwin as a non-executive director on Monday, 11 July 2011 resulted in the Company's securities being reinstated to official quotation on the same day. The Chief Executive, Kos Galtos resigned with effect on 15 August 2011 and as a condition of his resignation agreement the company has agreed to issue 3.5 million fully paid ordinary shares to Mr Galtos on or about 16 February 2012 for nil consideration. The shares to be issued will rank equally with existing ASX listed fully paid ordinary shares and the Company does not propose seeking shareholder approval for the issue.

Following Mr Galtos' resignation Mr Davies was appointed Managing Director and Executive Chairman of ECT and Ashley Moore was appointed Chief Operating Officer and an Executive Director with both appointments being effective from 17 August 2011.

On 18 July 2011 ECT issued a US\$200,000 convertible note to La Jolla Cove, this being the final note to be issued under the funding agreement signed in October 2010 and taking total drawings to the US\$2,500,000 limit of the facility. Since 30 June 2011 conversions of outstanding convertible notes have occurred on 16 and 19 August 2011 resulting in 13,049,733 ordinary shares being issued to the note holder. As at the date of this report there are convertible notes outstanding that have a face value of US\$646,055 (A\$596,112).

ECT has released a prospectus for a non-renounceable rights issue to raise approximately \$3.8 million to fund the Datang test burn, complete stage one of the design for tender for the proposed production plant in the Latrobe Valley and support ongoing operations. The company has offered approximately 634 million new shares at \$0.006 per new share to raise the \$3.8 million before expenses on the basis of 2 new shares for every 3 fully paid shares in ECT. Subscribers for new shares will receive 1 new free option (ESIO) for every 2 new shares issued.

In order to further support ongoing operation ECT accepted an offer on 17 August 2011 from Menzies Securities Pty Ltd to place approximately 43.8 million fully paid ordinary shares at \$0.006 per share to raise \$262,500 from sophisticated investors. With each 2 new shares subscribed for, the investors received 1 new listed option (ESIO) being a total of approximately 21.9 million new options.

It is ECT's intention to have its 2011 Annual General Meeting on Wednesday 16 November 2011 at 10.00am at a venue to be advised.

29. Parent Entity Disclosures

The following information has been extracted from the books and records of the parent and has been prepared in accordance with the accounting standards.

	2011	2010
	\$	\$
a) Financial Information		
Loss from ordinary activities after tax	(2,641,709)	(3,248,403)
Total Comprehensive Income	274,987	884,085
Current Assets	824,668	1,483,518
Non Current Assets	9,870,001	9,834,316
Total Assets	10,694,669	11,317,835
Current Liabilities	827,416	512,908
Non Current Liabilities	654,620	926,287
Total Liabilities	1,482,036	1,439,195
Net Assets	9,212,633	9,878,640
Share Holder Equity		
Issued Capital	48,281,117	46,520,448
Share Options Reserve	9,375	433,497
Convertible Note Reserve	211,658	-
Accumulated Losses	(39,289,517)	(37,075,305)
Total Equity	9,212,633	9,878,640

b) Guarantees

Environmental Clean Technologies Ltd has not issued any guarantees to any subsidiaries.

c) Other Commitments

Environmental Clean Technologies Ltd has no commitments to acquire property, plant and equipment, and has no contingent liabilities

d) Contingent Liabilities

Environmental Clean Technologies Ltd has no contingent Liabilities.



Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 22 to 60 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date, and
 - (iii) complying with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1(a) to the financial statements, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

On behalf of the Directors

Michael Davies

Melbourne

29 September 2011



Chartered Accountants
& Business Advisers

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of Environmental Clean Technologies Limited, which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information, and the directors' declaration of Environmental Clean Technologies Limited (the company) and consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

- (a) the financial report of Environmental Clean Technologies Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Tel: 61 3 9603 1700 | Fax: 61 3 9602 3870 | www.pkf.com.au
PKF | ABN 83 236 985 726
Level 14, 140 William Street | Melbourne | Victoria 3000 | Australia
GPO Box 5099 | Melbourne | Victoria 3001

The PKF East Coast Practice is a member of the PKF International Limited network of legally independent member firms. The PKF East Coast Practice is also a member of the PKF Australia Limited national network of legally independent firms each trading as PKF. PKF East Coast Practice has offices in NSW, Victoria and Brisbane. PKF East Coast Practice does not accept responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

Liability limited by a scheme approved under Professional Standards Legislation.



Chartered Accountants
& Business Advisers

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED (continued)**

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1(d) in the financial report, which indicates for the year ended 30 June 2011 the consolidated entity (group) incurred an operating loss before tax of \$3,121,709 and as of that date reflects net cash outflows from operating activities of \$2,438,316. Furthermore, the consolidated entity is reliant on equity capital or loans from third parties to meet their operating costs. These conditions, along with other matters as set forth in Note 1(d), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern, and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in or pages 15 to 19 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Environmental Clean Technologies Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Acts 2001*.

PKF

PKF

29 September 2011
Melbourne

David Garvey
Partner



Corporate Directory

Directors

M Davies (appointed 5/7/11)
S Carter
Iain McEwin (appointed 11/7/11)
Ashley Moore (appointed 17/7/11)

Secretary

J Osborne

Principal registered office in Australia

Level 8
530 Little Collins Street
Melbourne Vic 3000

Share registers

Security Transfer Registrars Pty Ltd
770 Canning Highway,
Applecross
WA 6153

Auditors

PKF Chartered Accountants
Level 14
140 William Street
Melbourne Vic 3000

Accountants

RSM Bird Cameron
Level 8, Rialto
525 Collins Street
Melbourne Vic 3000

Solicitors

Norton Rose
RACV Tower, 485 Bourke St
Melbourne Vic 3000

Exchange listings

Environmental Clean Technologies
Ltd's shares are listed on the
Australian Stock Exchange.
www.asx.com.au (ESI)

Website

www.ectltd.com.au



Shareholder Information

The shareholder information set out below was applicable as at 9 September 2011.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Ordinary Shares (ESI)	Listed Options (ESIO)
1 - 1000	173	8
1,001 – 5,000	183	2
5,001 – 10,000	157	0
10,001 – 100,000	1,403	143
100,001 and over	1,172	371
	<hr/>	<hr/>
	3,088	524

Unmarketable Parcels

ESI

There are 1,701 shareholders with shareholdings that are unmarketable parcels (55,719,133 shares).

ESIO

There are 227 option holders with holdings that are unmarketable parcels (26,650,159 options).

Shareholder Information (cont.)

B. Equity security holders
Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted ordinary shares (ESI) are listed below:

Ordinary Shares (ESI)	Number held	Percentage of issued shares
JBD Industrial Park Pty Ltd	47,400,000	4.98%
Mr Iain McEwin & Dianne Church	21,865,148	2.30%
P S Properties Pty Ltd	18,000,000	1.89%
Rod Johnson	16,641,764	1.75%
JP Morgan Nominees Australia PT	13,632,743	1.43%
Mr Zhao Chen	11,185,000	1.18%
Paldar Nominees Pty Ltd	11,056,500	1.16%
Caracob Pty Ltd	7,248,457	0.76%
CBD Plaza (Aust) Pty Ltd	6,980,010	0.73%
RJ Cousins Transport Pty Ltd	6,800,000	0.71%
Ke Rui Da Australia Pty Ltd	6,659,232	0.70%
B & R Superannuation Pty Ltd	6,600,000	0.69%
Masali Pty Ltd	6,389,828	0.67%
Mr David Bigney	6,282,680	0.66%
Mrs Heather Perry & Mr William Perry	6,000,000	0.63%
Graeme A Wood Pty Ltd	6,000,000	0.63%
Joseph Barakat & Marie Barakat	5,961,561	0.63%
Mr David Bonnitcha	5,650,000	0.59%
Abdul Fida Pty Ltd	5,637,653	0.59%
HSBC Custody Nominees Pty Ltd	5,511,000	0.58%
Top 20 Ordinary Shareholders Total	221,501,576	23.27%
Total Ordinary Shares as at 9 September 2011	951,908,845	

Shareholder Information (cont.)

Twenty largest quoted option holders

The names of the twenty largest holders of quoted options (ESIO) are listed below:

Listed Options exercisable at 2.0¢ on or before 16 January 2014 (ESIO)	Number held	Percentage of issued securities
JBD Industrial Park Pty Ltd	110,000,000	21.19%
Masali Pty Ltd	25,000,000	4.82%
Mr Iain McEwin	19,404,540	3.74%
Graeme A Wood Pty Ltd	15,000,000	2.89%
Mr Larry Hanley	13,086,845	2.52%
Larry Hanley Pty Ltd	11,570,000	2.23%
Rob Wood Investments Pty Ltd	10,500,000	2.02%
L J Thomson Pty Ltd	8,000,000	1.54%
Mr Daryl James	7,000,000	1.35%
Balgownie Securities Pty Ltd	6,000,000	1.16%
Hanley Family Pty Ltd	5,900,000	1.14%
Mr Nicholas Holland	5,800,000	1.12%
Ms Ying Zhao	5,777,052	1.11%
B & R Superannuation Pty Ltd	5,500,000	1.06%
Rob Wood Investments P/L	5,000,000	0.96%
Mr Braham Basser & Ms Maureen Basser	5,000,000	0.96%
Challenge Roofing Pty Ltd	4,245,000	0.82%
ABN Amro Cleaning Sydney Nominees Pty Ltd	4,212,500	0.81%
Mr Robert Douglas	4,200,000	0.81%
Mr Gregory Milts	3,961,911	0.76%
Top 20 Total	275,157,848	53.00%
Total Listed Options as at 9 September 2011	519,139,537	



Shareholder Information (cont.)

C. Substantial holders

There are no substantial shareholders.

D Voting rights

The voting rights attaching to each class of security are set out below.

Ordinary shares

On a show of hands, each member present in person and each other person present as a proxy of a member has one vote. On a poll each member present in person has one vote for each fully paid share held by the member and each person present as a proxy of a member has one vote for each fully paid share held by the member that the proxy represents.