

# Nviro Cleantech plc

## INTERIM REPORT

Six months ended 31 March 2009

Company Registration No. 116537C

# Nviro Cleantech plc

## CHIEF EXECUTIVE'S STATEMENT

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### **Review of Activities**

The first six months of this financial year have seen significant changes in our business reflecting both internal and external pressures stimulating the restructuring of the Vertus clean fuels business and leading the Company to reshape its staff structure and overall strategy going forward.

As the financial year opened in October 2008, the Group was set to build its first commercial clean coal treatment plant in Cincinnati and shortly thereafter, in November, obtained the necessary Ohio State and Cincinnati City air emission permits required to commence the build, but some intricate and costly re-design in the off gas management systems was required to meet the locally higher level emission requirements. As announced in March 2009, at the turn of the calendar year the Company suffered the combined impact of the global economic downturn and local influences upon coal pricing in the US fuel economy which initially resulted in a temporary halt in construction. Subsequently, in May 2009, the Company announced the cessation of development of the first Vertus commercial site in Cincinnati because of regulatory requirements and the changing economic costs of production at that site. As a consequence of these events, the Company started an engineering review of the thermal process the Company had envisaged using and an economic review of the application of clean fuels technologies commercially. In this connection we utilised the recently completed laboratory facility in Cincinnati to test a wide range of clean fuels.

We devoted the early months of 2009 working to understand better the range of our technical capability with the Vertus reductive thermal processes and in reducing costs and operating overhead to conserve cash for the longer run. Extensive testing was carried out in the laboratory at Cincinnati across the full range of coal rankings and included biomass in the programme. Positive results have enabled us to define key market sectors where we can continue commercialisation of our clean fuels business.

Additionally, the Directors have taken actions to reduce operational expenditure and stop new capital spend. Since the turn of the year substantial cuts have been made in employee numbers, reducing staff costs by approximately 44 per cent. Additional reductions in consultancy support and other costs have helped to reduce operating costs by 50 per cent in May 2009 compared to January 2009.

As mentioned above, on the basis of the economic costs of production and regulatory conditions, the Company has withdrawn from building the plant at Cincinnati Bulk Terminals ("CBT") site. However the Company is moving towards specific customer-driven opportunities to implement alternative sites with CBT in the Cincinnati region. Currently, we are seeking to establish jointly a treatment plant at one of CBT's client sites and are presently conducting an early stage review of another potential location. As a result of this the Company has taken the prudent step of impairing the assets acquired specifically for the original site. On account of the above stated factors the Board expects a delay in the timetable for generation of revenues coming from the first clean fuel project and consequently the Board is considering options that can help sustain the Company in these circumstances. Simultaneously, the Board sought to address the structure of client business models endeavouring to accelerate access to income where possible.

Meanwhile the Board has been pursuing the option of strategic relationships that can assist the long term sustainability of the business in the current financial market place and strengthen the business in the markets where it intends to operate. The trading update of 15 May 2009 contains details of initial discussions concerning this aspect of change which the Board believe will transform the opportunities for the business. Since then, the Board has continued to work towards reaching constructive conclusions on this matter and will keep the market updated with further developments when appropriate.

### **Vertus Technologies & Clean Fuels Production**

As a consequence of worldwide, national and local economic changes, December 2008 saw a dramatic convergence of prices between Environmental Protection Agency Air Quality compliant coal and the non-compliant grades, highlighting for us potential issues with our technology's capability to deliver product with the economic benefits we had envisaged. The perceived value differential between a compliant fuel and non compliant fuel fell from over US\$60/ton to US\$6/ton in a short span of time.

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## CHIEF EXECUTIVE'S STATEMENT

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The economic changes highlighted the pressure on the engineering and performance of the CBT installation design to operate cost effectively and profitably to an acceptable economic margin. The result of these events led to an extensive test programme, which was run this year spanning over twenty fuels from various coal quality rankings and locations around the world. This test programme is expected to continue throughout the year as additional fuel samples from various world regions are received. Results to date from this programme have enabled us to define very clearly the target markets, the primary technologies and clean fuel services that we are effectively able to provide prospective clients.

Clean fuels remain the primary focus for the Company. The Board believes that the key to the future remains the use of thermal and other processes to modify both coal and biomass resources, selectively applied for effective economic processing. The ability to blend and apply additives and biomass has combined to focus the Company's future efforts on three clean fuel sectors which include:

- the manipulation of high ranking fuels like anthracite to meet specific tailored requirements
- the drying and upgrading of low ranking fuels for power generation and
- the blending of thermally pre-treated biomass for CO<sub>2</sub> reduction and additives

The latter sector combines the technologies specifically for reduction of hazardous air pollutants in coal as well as CO<sub>2</sub>, carefully targeted to meet current and planned legislation on climate change in the core fuel volume of the power generation market.

The resulting refinement of the focus for applying our technology has been combined with an updated business model that seeks a greater degree of partnering with the client, managing design, build and operations of the pre-treatment plant in which they invest. This will enable the output to be tailored for their precise needs and to cope with subsequent changes in fuel resources, legislation and market pricing that may demand the alteration of their fuel specifications in the future. Currently we are in the process of applications for full grant funding of a plant in conjunction with clients in the USA and in discussion with European, North American and Asian clients who have the ability to invest in plants to meet their fuel requirements in future.

Over the last six months while reducing the number of staff in the Vertus and clean fuels area we have also been successful in strengthening the relevant skill sets in the team and have seen benefit from appointing a new Director of Engineering, Bernard Gray, in January to implement, coordinate and direct the latest phase of technology testing and process development. In addition a number of IP opportunities have been identified by the team and are being prepared for submission. The primary objective for the coming period is the consolidation of our initial efforts to implement the outcomes of the first half year in the form of new locations and commitments to the first full industrial scale site for an Nviro clean fuels application while seeking further revenue earning opportunities as early as possible.

### **Microrelease Limited**

Over the period the project team has been in detailed discussions with MDF manufacturers and continues to monitor closely trial activities to develop the technology, against targeted specific requirements from potential commercial partners in the MDF board manufacturing industry and in other application sectors utilising recycled fibre. While many of the technical issues for installation at an industrial scale have been overcome, the intervention of a new process in well tuned existing MDF board production lines is an exercise that demands careful analysis by the parties and that process continues in parallel with commercial discussions upon which installation will proceed.

Batches of finished boards of up to 20% blended recycled material produced by different manufacturers earlier in the period have now been utilised in a number of smaller applications in fitting out retail sites. These results encouraged a successful large application fit out for a major eco-store in the second quarter. In addition, some

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## CHIEF EXECUTIVE'S STATEMENT

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success on smaller scale projects has been achieved where fibre has been used in non-board applications which has encouraged demand for additional quantities of recycled fibre from those prospective users.

The Board is keeping its options open to implement a first full scale industrial plant or the build of an interim small industrial plant to produce more substantial ongoing volume of fibre for a combination of further board manufacturing tests and supply to non board applications, depending on the ongoing investment and commercialisation path selected by the Company and influenced by the prospective partners' market interest.

### **Laseair Ltd**

The development of Laseair is almost at the end of its performance testing programme and has already stimulated some interest in partnering development which will be pursued in the next period to find a suitable route to commercialisation for this technology.

### **Organotect Ltd**

Completion of prototypes and further testing of the capabilities of the individual processes combined in the unit have been successful in adding to the potential ways to apply this technology in the market and in generating initial interest in integration of the technology by third parties. The next period will focus on developing that interest to a commercial level.

### **Financial Results**

During the period to 31<sup>st</sup> March 2009 the Group reported a pre-tax loss of £5.3m which, translates to a loss per share of 8.03p. As a consequence of the withdrawal from the CBT site in Cincinnati, the Group booked an impairment charge of £2.9m against assets under construction at that site. Cash balances at the end of the period were £ 6.0m (September 2008: £ 10.9m).

### **The Outlook**

In spite of a global economic slowdown the energy industry remains relatively buoyant with growth and refurbishment still planned in territories around the globe and the pressures to meet clean air and climate change legislation continue unabated. In a difficult period, Nviro has been able to record some significant positives in the clear definition of target sectors and ability of the technologies available to us in the clean fuel market place. The interest from prospective clients in the Company's technology remains strong and Nviro continues to maintain its market focus as a clean fuels technology provider. Identification of a commercial site to replace the planned CBT installation is central to the actions for this half year. At the same time, the follow on projects and Microrelease provide fundamentally sound supporting value at this stage for a global opportunity in clean fuels. In addition, since restructuring, the business is leaner and better able to conserve cash while completing the exercise that has been initiated in seeking out partnerships and strengthening the long term ability to derive value from the Nviro technology portfolio for shareholders.

Chris Every  
**Chief Executive**  
**24 June 2009**

**Nviro Cleantech plc**  
**CONSOLIDATED INCOME STATEMENT**  
For the six months ended 31 March 2009

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	<i>Notes</i>	<b>6 months ended 31 March 2009 £'000 Unaudited</b>	<b>6 months ended 31 March 2008 £'000 Unaudited</b>	<b>12 months ended 30 September 2008 £'000 Audited</b>
<b>Continuing Operations</b>				
Research expenses		(164)	(263)	(329)
Administrative expenses		(2,671)	(1,264)	(3,108)
Impairment of property plant & equipment		(2,907)	-	-
Other operating income		338	76	-
<b>OPERATING LOSS</b>		<u>(5,404)</u>	<u>(1,451)</u>	<u>(3,437)</u>
Share of results of joint venture		(12)	-	(19)
Finance income		111	96	283
<b>LOSS BEFORE TAX</b>		<u>(5,305)</u>	<u>(1,355)</u>	<u>(3,173)</u>
Tax		-	-	-
<b>LOSS FOR THE FINANCIAL PERIOD</b>		<u>(5,305)</u>	<u>(1,355)</u>	<u>(3,173)</u>
Basic and diluted loss per share	4	<u>(8.03)p</u>	<u>(3.09)p</u>	<u>(6.44)p</u>

**Nviro Cleantech plc**  
**CONSOLIDATED BALANCE SHEET**  
**31 March 2009**

	<i>Notes</i>	<b>31 March 2009 £'000 Unaudited</b>	<b>31 March 2008 £'000 Unaudited</b>	<b>30 September 2008 £'000 Audited</b>
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
Licence fees	5	870	975	923
Patents	5	39	-	-
Development costs	5	1,022	554	867
Property, plant & equipment	6	911	427	1,220
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,842</b>	<b>1,956</b>	<b>3,010</b>
<b>CURRENT ASSETS</b>				
Other receivables		295	33	145
Cash and cash equivalents	7	5,953	4,031	10,946
<b>TOTAL CURRENT ASSETS</b>		<b>6,248</b>	<b>4,064</b>	<b>11,091</b>
<b>TOTAL ASSETS</b>		<b>9,090</b>	<b>6,020</b>	<b>14,101</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Trade and other payables		(1,098)	(836)	(926)
Provisions	8	(420)	-	(337)
Bank overdraft and loans	7	-	(30)	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>(1,518)</b>	<b>(866)</b>	<b>(1,263)</b>
<b>NON CURRENT LIABILITIES</b>				
Interests in joint ventures		(43)	-	(22)
<b>TOTAL NON CURRENT LIABILITES</b>		<b>(43)</b>	<b>-</b>	<b>(22)</b>
<b>TOTAL LIABILITIES</b>		<b>(1,561)</b>	<b>(866)</b>	<b>(1,285)</b>
<b>NET ASSETS</b>		<b>7,529</b>	<b>5,154</b>	<b>12,816</b>
<b>EQUITY</b>				
Called up share capital		66	44	66
Share premium reserve		16,017	6,582	16,017
Merger reserve		4,585	4,585	4,585
Share based payment reserve		399	350	366
Translation reserve		(18)	-	(3)
Retained earnings		(13,520)	(6,407)	(8,215)
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		<b>7,529</b>	<b>5,154</b>	<b>12,816</b>
Minority Interest	11	-	-	-
<b>TOTAL EQUITY</b>		<b>7,529</b>	<b>5,154</b>	<b>12,816</b>

**Nviro Cleantech plc**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**31 March 2009**

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	<i>Notes</i>	<b>6 months ended 31 March 2009 £'000 Unaudited</b>	<b>6 months ended 31 March 2008 £'000 Unaudited</b>	<b>12 months ended 30 September 2008 £'000 Audited</b>
<b>OPERATING ACTIVITIES</b>				
Net cash (outflow) from operations	9	(2,427)	(1,063)	(2,649)
<b>NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES</b>				
		(2,427)	(1,063)	(2,649)
<b>INVESTMENT ACTIVITIES</b>				
Finance income		110	96	283
Purchase of intangible assets		(194)	(555)	(867)
Purchase of property, plant and equipment		(2,482)	(409)	(1,210)
<b>NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES</b>				
		(2,566)	(868)	(1,794)
<b>FINANCING ACTIVITIES</b>				
Proceeds from issue of shares		-	-	10,005
Costs on issue of shares		-	-	(548)
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>				
		-	-	9,457
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>				
		(4,993)	(1,931)	5,014
Cash and equivalents at beginning of period		10,946	5,932	5,932
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>				
		5,953	4,001	10,946

# Nviro Cleantech plc

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 March 2009

	Share Capital	Share Premium	Merger Reserve	Share Based Payment Reserve	Translation Reserve	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>As at 30 September 2007 (Audited)</b>	<b>44</b>	<b>6,582</b>	<b>4,585</b>	<b>286</b>	<b>-</b>	<b>(5,052)</b>	<b>6,445</b>
Loss for the 6 month period	-	-	-	-	-	(1,355)	(1,355)
Total recognised income and expense	-	-	-	-	-	(1,355)	(1,355)
Share based payment charge	-	-	-	64	-	-	64
<b>As at 31 March 2008 (Unaudited)</b>	<b>44</b>	<b>6,582</b>	<b>4,585</b>	<b>350</b>	<b>-</b>	<b>(6,407)</b>	<b>5,154</b>
Loss for the 6 month period	-	-	-	-	-	(1,818)	(1,818)
Foreign currency translation	-	-	-	-	(3)	-	(3)
Total recognised income and expense	-	-	-	-	(3)	(1,818)	(1,821)
Share based payment charge	-	-	-	26	-	-	26
Transfer on exercise of share options	-	-	-	(10)	-	10	-
Issue of share capital, (net of issue expenses)	22	9,435	-	-	-	-	9,457
<b>As at 30 September 2008 (Audited)</b>	<b>66</b>	<b>16,017</b>	<b>4,585</b>	<b>366</b>	<b>(3)</b>	<b>(8,215)</b>	<b>12,816</b>
Loss for the 6 month period	-	-	-	-	-	(5,305)	(5,305)
Foreign currency translation	-	-	-	-	(15)	-	(15)
Total recognised income and expense	-	-	-	-	(15)	(5,305)	(5,320)
Share based payment charge	-	-	-	33	-	-	33
<b>As at 31 March 2009 (Unaudited)</b>	<b>66</b>	<b>16,017</b>	<b>4,585</b>	<b>399</b>	<b>(18)</b>	<b>(13,520)</b>	<b>7,529</b>

# Nviro Cleantech plc

## NOTES TO THE INTERIM REPORT

### For the six months ended 31 March 2009

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#### 1 GENERAL INFORMATION

Nviro Cleantech plc is a company incorporated in the Isle of Man under the provisions of the Companies Acts 1931 to 2004. The address of the registered office is Burleigh Manor, Peel Road, Douglas, Isle of Man IM1 5EP.

Copies of the interim statement maybe obtained from the above address or the investors' section of the Company's website.

#### 2 BASIS OF PREPARATION

These interim consolidated financial statements are for the six months ended 31 March 2009. The interim financial report, which is unaudited, has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards and IFRIC interpretations adopted for use in the European Union ("IFRS"). The accounting policies and methods of computation used are consistent with those used in the Group annual report for the year ended 30 September 2008 and are expected to be used in the Group Annual Report for the year ended September 2009.

The financial information for the year ended 30 September 2008 does not constitute statutory information. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on these accounts was not qualified and did not contain statements under section 15(4) or (6) of the Companies Act 1982.

The interim consolidated financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates. All values are rounded to the nearest thousand pounds (£'000) except when otherwise stated.

At the end of March 2009, the Group had cash reserves of £6.0m and £4.7m at 31 May 2009. As previously announced, capital expenditure at the CBT site has been halted and substantial cost savings have been identified and implemented, enabling the Group to continue as a going concern for twelve months from the date of approval of these unaudited interim financial statements. It is envisaged that funding for the Group's ongoing capital projects will be obtained through government grants or strategic partnerships currently under discussion.

#### 3 ACCOUNTING POLICIES

All accounting policies are consistent with those stated in the Group's financial statements for the year ended 30 September 2008.

#### 4 LOSS PER SHARE

Basic loss per share of 8.03p (30 September 2008 – 6.44p; 31 March 2008 – 3.09p) is based on the loss for the financial period of £5,305,000 (30 September 2008 - £3,173,000; 31 March 2008 - £1,355,000) and on 66,091,184 (30 September 2008 – 49,298,469; 31 March 2008 – 43,822,959) ordinary shares being the weighted average number of shares in issue throughout the period. As there is a loss for the period there is no difference between the basic and diluted loss per share.

**Nviro Cleantech plc**  
**NOTES TO THE INTERIM REPORT**  
For the six months ended 31 March 2009

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5	INTANGIBLE ASSETS	Licence fees	Patents	Development costs	Total
		£'000	£'000	£'000	£'000
	<b>Cost:</b>				
	At 1 October 2007	1,054	-	-	1,054
	Additions	-	-	554	554
	At 31 March 2008	<u>1,054</u>	<u>-</u>	<u>554</u>	<u>1,608</u>
	Additions	-	-	313	313
	At 30 September 2008	<u>1,054</u>	<u>-</u>	<u>867</u>	<u>1,921</u>
	Additions	-	39	155	194
	At 31 March 2009	<u><u>1,054</u></u>	<u><u>39</u></u>	<u><u>1,022</u></u>	<u><u>2,115</u></u>
	<b>Amortisation:</b>				
	At 1 October 2007	26	-	-	26
	Charge for the period	53	-	-	53
	At 31 March 2008	<u>79</u>	<u>-</u>	<u>-</u>	<u>79</u>
	Charge for the period	52	-	-	52
	At 30 September 2008	<u>131</u>	<u>-</u>	<u>-</u>	<u>131</u>
	Charge for the period	53	-	-	53
	At 31 March 2009	<u><u>184</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>184</u></u>
	<b>Net Book Value:</b>				
	31 March 2008	975	-	554	1,529
	30 September 2008	<u>923</u>	<u>-</u>	<u>867</u>	<u>1,790</u>
	31 March 2009	<u><u>870</u></u>	<u><u>39</u></u>	<u><u>1,022</u></u>	<u><u>1,931</u></u>

**Nviro Cleantech plc**  
**NOTES TO THE INTERIM REPORT**  
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6	PROPERTY PLANT AND EQUIPMENT	Leasehold improvements	Assets in the course of construction	Plant & Machinery	Computer equipment	Total
		£'000	£'000	£'000	£'000	£'000
	<b>Cost:</b>					
	At 1 October 2007	-	-	33	3	36
	Additions	-	396	10	2	408
	At 31 March 2008	-	396	43	5	444
	Additions	46	745	10	1	802
	At 30 September 2008	46	1,141	53	6	1,246
	Additions	38	2,366	-	11	2,415
	At 31 March 2009	84	3,507	53	17	3,661
	<b>Depreciation:</b>					
	At 1 October 2007	-	-	1	-	1
	Charge for the period	-	8	7	1	16
	At 31 March 2008	-	8	8	1	17
	Charge for the period	9	(8)	7	1	9
	At 30 September 2008	9	-	15	2	26
	Charge for the period	27	-	9	1	37
	Impairment charge	48	2,639	-	-	2,687
	At 31 March 2009	84	2,639	24	3	2,750
	<b>Net Book Value:</b>					
	31 March 2008	-	388	35	4	427
	30 September 2008	37	1,141	38	4	1,220
	31 March 2009	-	868	29	14	911

As a consequence of the decision, based on currently prevailing economic conditions and on grounds of economic non viability, not to proceed at the CBT site in Cincinnati and the associated deferral of revenues, an impairment charge of £2.69m has been booked against fixed assets under construction and leasehold improvements at that site. A further provision of £0.22m has been made against assets contracted for but not yet acquired at the balance sheet date (see note 8).

**Nviro Cleantech plc**  
**NOTES TO THE INTERIM REPORT**  
For the six months ended 31 March 2009

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7	CASH AND CASH EQUIVALENTS	<b>6 months ended 31 March 2009 £'000 Unaudited</b>	<b>6 months ended 31 March 2008 £'000 Unaudited</b>	<b>12 months ended 30 September 2008 £'000 Audited</b>
	Cash and cash equivalents per balance sheet	5,953	4,031	10,946
	Bank overdrafts	-	(30)	-
	Cash and cash equivalents per cash flow statement	<u>5,953</u>	<u>4,001</u>	<u>10,946</u>
		<u>          </u>	<u>          </u>	<u>          </u>
8	PROVISIONS	<b>6 months ended 31 March 2009 £'000 Unaudited</b>	<b>6 months ended 31 March 2008 £'000 Unaudited</b>	<b>12 months ended 30 September 2008 £'000 Audited</b>
	Provision for impairment of contracted assets	220	-	-
	Other provisions	200	-	337
		<u>420</u>	<u>-</u>	<u>337</u>
		<u>          </u>	<u>          </u>	<u>          </u>
9	NOTES TO THE CASHFLOW STATEMENT	<b>6 months ended 31 March 2009 £'000 Unaudited</b>	<b>6 months ended 31 March 2008 £'000 Unaudited</b>	<b>12 months ended 30 September 2008 £'000 Audited</b>
	OPERATING LOSS	(5,404)	(1,451)	(3,437)
	Adjustments for:			
	Depreciation of property plant and equipment	37	17	25
	Impairment of property, plant and equipment	2,907	-	-
	Amortisation of intangible assets	53	53	105
	Share based payment expense	33	64	90
	Effect of foreign exchange fluctuations	35	-	-
		<u>          </u>	<u>          </u>	<u>          </u>
	<b>Operating cashflows before movements in working capital</b>	<b>(2,339)</b>	<b>(1,317)</b>	<b>(3,217)</b>
	Changes in working capital			
	(Increase) / decrease in other receivables	(127)	352	240
	(Decrease) / increase in trade and other payables	39	(98)	328
		<u>          </u>	<u>          </u>	<u>          </u>
	<b>Cash generated by Operations</b>	<b>(2,427)</b>	<b>(1,063)</b>	<b>(2,649)</b>
		<u>          </u>	<u>          </u>	<u>          </u>

**Nviro Cleantech plc**  
**NOTES TO THE INTERIM REPORT**  
**For the six months ended 31 March 2009**

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10 DIVIDEND

The Directors are unable to recommend the payment of a dividend.

11 MINORITY INTEREST

Equity attributable to the minority interest is £Nil at 31 March 2009, 30 September 2008 and 31 March 2008, as the minority does not have a binding obligation to make additional investment to cover the losses of the group. There are net liabilities in the relevant companies.

12 APPROVAL OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These interim consolidated financial statements (unaudited) were approved by the Board of Directors on 24 June 2009.