

ASX ANNOUNCEMENT: 21 February 2011**CEO on Victoria Coldry Project and
first Coldry Sale**

Open Briefing with CEO Kos Galtos

**ENVIRONMENTAL CLEAN
TECHNOLOGIES LIMITED**Environmental Clean Technologies Limited
Level 8, 530 Little Collins Street
Melbourne, VIC, 3000**In this Open Briefing®, CEO Kos Galtos discusses**

- **First local Coldry sale with construction of Victoria Coldry Project commencing in 2011**
- **Advancing to pilot plant design for MATMOR technology**
- **Outlook and strategic focus over 2011**

Open Briefing interview:**openbriefing.com**

Environmental Clean Technologies Limited (ASX: ESI) recently completed preliminary engineering studies for its proposed Victorian Coldry Project. The project will use ESI's proprietary Coldry process to convert brown coal into black coal equivalent pellets for export. What evidence do you have that the Coldry process will work on a commercial scale and what is the potential market for the technology?

CEO Kos Galtos

We've operated a 15,000 tpa pilot plant in Bacchus Marsh, Victoria for about five years. The plant has proven up the ability of the technology to turn brown coal into a black coal equivalent.

The plant is based around very simple equipment that has been used in industrial processes for a long time: a screen, a conveyor belt, an attritioning or mixing unit that mechanically sets off the chemical reaction that collapses the coal and forces the water from it, and an extruder. We also use a heat exchange process to generate warm air to dry the pellets.

It's all proven technology and given the commercial plant will simply be a modular expansion of the pilot plant, we believe the scaling up risks are minimal.

The biggest market for Coldry is the market for high grade fuels for thermal electricity generation, which continues to grow rapidly in economies like India and China. Both countries are reliant on coal fired generation for their growing base load power needs and will continue to be for many years to come. India is reliant on imports of black coal and China is expected to run out of its own black coal within the next two decades. Coldry could potentially allow them to use their domestic brown coal resources more efficiently.

Another potential source of demand for Coldry is the CO₂ emissions reduction market – the replacement of brown coal burning generators with more efficient black coal generation. This has the potential to substantially reduce CO₂ emissions at much lower cost than gas fired generation for example.

There are other companies developing brown coal drying technology, particularly in China, and we expect other plants to be built around the world within the same timeline as ours. However, most of the major energy companies in China are engaged with us in relation to Coldry: our process is designed around total cost of ownership and reliability, and is the only one to date that can make an exportable pellet that won't take water back on again.

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ESI achieved its first local Coldry sale after signing an off-take agreement for 2,000 tonnes per year for two years with BAIC Protein. How important is the agreement in the further development of ESI's Coldry plant and what long term market opportunities does it create? What next steps will ESI take in order to service the agreement?

CEO Kos Galtos

Prior to the sale, we were a technology commercialisation business, without a commercial plant. While relatively small, this agreement is important as it gets Coldry into the market and provides a real-world reference case for new technology financiers.

The priority for the pilot plant is to produce larger test quantities for prospects. We expect to receive large raw brown coal samples from various sources over the coming months. These will be processed in to several hundred tonnes of Coldry pellets and sent overseas for analysis and combustion testing. The tests are part ESI's sales process and are required to escalate initial indicative business cases for potential projects in to formal investment cases.

Because of the extra capacity created by the new mixer and extruder installed under our collaboration with JC Steele, we've produced more Coldry than we currently need and at a price that generates cash into the business. This cash will help offset some of the cost of producing larger samples. The next step in servicing the agreement with BAIC is to simply run the plant and deliver 40 tonnes a week. Deliveries will commence soon.

If the commercial drivers exist we'll continue producing and selling Coldry from the plant beyond the two year contract with BAIC. Following a period of assessment in coming months, we'll gauge how much extra capacity we can further produce and sell without interfering with our core Coldry sample activities.

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How important will the Victorian project be in developing a market for the Coldry process? What are the expected milestones for the Victorian project in the short to medium term?

CEO Kos Galtos

The project, which is being developed in the brown coal rich Latrobe Valley in partnership with TinCom, is critical. It's our first commercial scale project and will establish beyond a doubt that Coldry is the most economic lignite dewatering process on the market. The project is also important for our shareholders: it will generate revenue and reduce the need to dilute their shareholding.

In stage one, we expect the plant to produce two million tpa. Capacity is projected to grow to 5 million tpa in stage two, and reach 20 million tpa within 10 years of first commercial production. We're targeting commencement of construction in 2011, with a completion target of late 2013 or early 2014. This timeline factors in the approvals and commissioning processes, as well as delays that occur in any first-time, big-capital infrastructure projects.

After the second stage, the project becomes dependent on state government expansion of rail and port infrastructure but we're confident this capacity can be delivered.

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How will ESI derive revenue from the commercial operation of the Coldry process and how are you seeking to market the technology?

CEO Kos Galtos

We don't have a large amount of capital so we'll license the technology and earn royalties based on production volume. The royalty, of \$5 per tonne for the Victorian Project, is equivalent to about \$1 per gigajoule of increased energy count. The stage one, two million tpa plant is therefore expected to generate \$10 million a year worth of royalty income for us. We'll also secure an "undilutable" 10 percent equity stake in the Victoria Project, which will give us some exposure to potential rises in coal prices in the future.

In markets such as China and India there appears to be a preference for payments of up-front license fees for Coldry. This is something we'll look at once our first plant is producing and the final steps in commercialisation have been achieved.

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To what extent will the development of a significant market for the Coldry process depend on the implementation of carbon pricing mechanisms?

CEO Kos Galtos

Without a carbon price, it's cheaper to dig up brown coal for a few dollars a tonne and burn it. Where there is a carbon price, Coldry is the most cost effective carbon abatement solution available.

In Victoria's case, replacement of brown coal generation with black coal generators burning a Coldry remediated fuel could achieve the legislated 20 percent carbon reduction for 27 percent less cost than gas and 46 percent less cost than wind. The reality is that significant power generation can't be delivered by gas and wind without major capital investment. If the existing brown coal power stations in Victoria replaced 10 percent of their current fuel with our Coldry product, which they can within their existing boilers without any additional capital spending, they would reduce their carbon emissions by 5 percent.

Apart from carbon abatement, Coldry also opens up a potential new market for brown coal as an export. Brown coal can't be carried for long distances because of its combustibility, whereas our black coal equivalent pellets can be exported, and as such would trade in line with international black coal prices, demand and availability.

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For the year ended 30 June 2010, ESI booked negative cash flow from operating activities of \$3.0 million and cash on hand at the end of the year was \$1.0 million. You recently agreed to issue

up to US\$2.5 million of convertible notes to La Jolla Cove Investors. When do you expect to be self funding? What level of additional funding will be required before then and what are the expected sources?

CEO Kos Galtos

ESI is a technology business, set up for the purpose of commercialising Coldry and MATMOR. We've proven our first technology, made an initial sale and we're on track to generate our first project revenue by the end of 2013 or early 2014. However, unless we do a deal where we charge a license fee up-front, we don't expect to be self funding until then.

We have a disciplined approach to expenditure, but we don't want to be a one deal company: we need to continue expanding our pipeline. As our pipeline for Coldry evolves, we'll develop our strategy for MATMOR.

In relation to Coldry only, we expect cash burn of about \$2.5 million a year, or about \$7.5 million of expenditure until the end of 2013.

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ESI is advancing toward pilot plant design for MATMOR, a method for producing high quality iron from brown and sub-bituminous coals and metal bearing media like high and low grade iron ore, mill scale and nickel tailings. What will be the next steps in the development of MATMOR and what level of investment will be required to achieve commercialisation?

CEO Kos Galtos

We believe MATMOR is a strong technology and the next stage in its development will see a scale-up to pilot plant, with production of around 7,500 tonnes per annum, up from 40 tonnes. We expect this to cost \$8 million to \$10 million. We also expect the pilot plant to be profitable, even at this small scale, due to the economics of the low cost raw materials.

We have a participation agreement and conditions precedent to commence the pilot plant by 1 July 2011. We will be seeking strategic partners to take MATMOR forward and are looking for partners with expertise in the metals industry as well as funding capacity.

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What will be the strategic focus for ESI over FY11 and what milestones do you expect to achieve?

CEO Kos Galtos

We're primarily focused on commencing external engineering and planning for our Victorian Coldry Project. This will provide us with a recurring revenue stream which is in the interests of the company and shareholders.

We'll also be advancing opportunities in China, India and Poland in relation to Coldry. We recently signed an MOU with ELBIS, a subsidiary of Poland's state controlled power utility Polska Grupa Energetyczna (PGE), which owns the largest lignite-fired power station in the world. We're also working toward securing opportunities for the local construction of Coldry plants in China with local Chinese partners.

Over FY11 we'll also commence design work for the MATMOR pilot plant. We'll be reviewing funding and structuring options and also seeking a strategic partner for its construction

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Thank you Kos.

For more information about Environment Clean Technologies Limited, visit www.ectltd.com.au or call Kos Galtos on +61 3 9684 0888.

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