

East Coast Minerals NL (ASX: ECM)

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Option to Acquire 51% of underground coal gasification development company



ABN 82 000 738 885

Highlights

- East Coast Minerals has entered into an option to acquire 51% of Energie Future which is expected to provide a significant underground coal gasification opportunity
- Energie Future has applied for four coal mining exploration licences over 6000 km² offshore NSW
- Energie Future has an MOU with United States underground coal gasification specialists to provide the required technology for the development of the business
- US Partners to bring an advanced United States coal-to-liquids development opportunity to Energie Future

East Coast has entered into an option to acquire 51% of Energie Future Pty Limited. The exercise of the option is subject to final due diligence by East Coast.

Energie Future

Rick Somerton, the Managing Director of Energie Future has assembled the essential elements to establish a coal to liquids business, based on underground coal gasification, in particular:

- Energie Future has applied for coal mining exploration licences stretching from Wollongong to Port Stephens which are situated offshore and cover an area of almost 6000 km² which may contain in excess of 28 billion tonnes of coal¹;
- Energie Future has a non-binding Memorandum of Understanding (MOU) with InSitu Energy LLC, a company jointly owned by a group of United States underground coal gasification specialists, Energy Technology Partners LLC and Raven Ridge Resources Incorporated.

¹ Bowman, H.N., 1981. Brief notes on the offshore coal potential of New South Wales. Geological Survey of New South Wales, Report GS 1981/37

A new holding company, Energie Future NL (EFNL) will be formed to acquire 100% control of Energie Future. On exercise of the option, East Coast will own 51% of EFNL.

The MOU contemplates that InSitu will also acquire 9.8% of EFNL. This interest will come from the original shareholders' 49% and will not dilute East Coast's 51% interest.

Technology Partnership

Energie Future's technology partners are:

- Energy Technology Partners LLC who are experts in underground coal gasification project conceptualisation, design and operation and are also leaders in the use of the Fischer Tropsch technology which converts Syngas to high value, ultra clean, diesel, and jet fuel; and
- Raven Ridge Resources who are experts in operating and project managing coal seam and underground coal gasification projects both in the United States and internationally. Raven Ridge Resources worked in partnership with Energy Technology Partners on the Rocky Mountain 1 and New Zealand underground coal gasification projects.

InSitu's interest in EFNL will be earned in return for establishing in Australia a jointly owned technology company with EFNL that will:

- Provide EFNL with the underground coal gasification technologies in perpetuity and royalty free;
- Exploit the underground coal gasification technologies exclusively in Australia and through a non-exclusive licence in agreed territories outside of Australia;

In addition, Energy Technology Partners will licence the technology company for the use of its proprietary Fischer Tropsch gas to ultra clean diesel technology.

United States Opportunity

A further benefit of the MOU is the opportunity for EFNL to acquire an advanced coal to liquids development opportunity in the United States that:

- Has an ultimate potential production capacity of 50,000 barrels per day;
- Has already conducted a successful pilot using the UCG and Fischer Tropsch technologies which to date has cost US\$100 million; and
- Could be under construction within twelve months and in production within approximately four years.

Richard Sealy
Managing Director

FURTHER INFORMATION

The Underground Coal Gasification Process

Underground Coal Gasification is an in-situ gasification process carried out in non-mined coal seams using injection and production wells drilled from the surface, which enables the coal to be converted into product gas.

The process is flexible in operation and is capable of producing commercial quantities of gas to be used as a chemical feedstock or as fuel for power generation.

The technique can be applied to coal resources that are otherwise not economical to extract, and also offers an alternative to conventional coal mining methods for some resources.

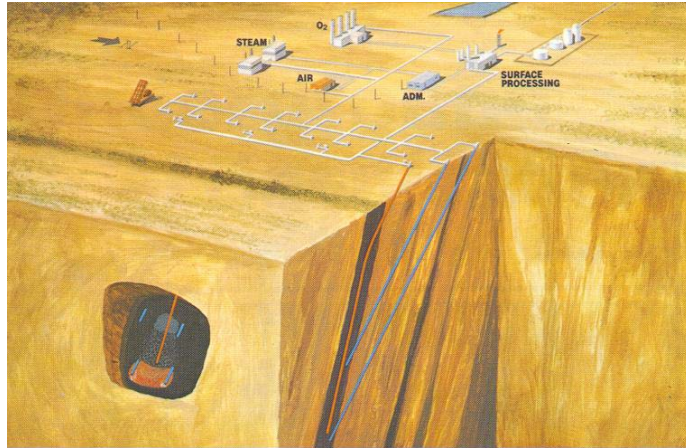


Figure 1: Diagram of Underground Coal Gasification used at Rawlins Wyoming

UCG has the advantage over traditional coal mining and gasification methods in minimising environmental and social harm. The technology could be used to ensure that coal remains a part of the global energy mix by providing solutions to reduce and abate greenhouse gas emissions from burning coal.

Coal Lease Applications

Energie Future has four coal lease applications in the Commonwealth Territorial waters off the coast of NSW covering an area of approximately 6000 km². The Applications are located offshore between Port Stephens and Wollongong.

The areas within the Applications are bounded by coal outcroppings at the North and the South and the continental shelf to the west.

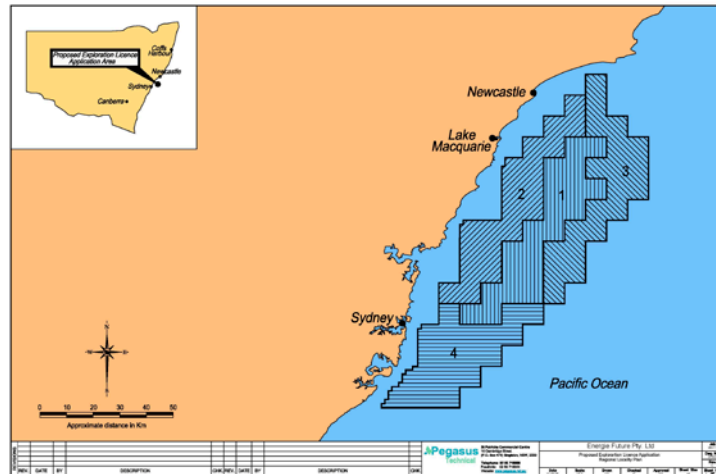


Figure 2: Location Map of Mining Licence Applications

In 1981, the Coal Strategy Division of the NSW Department of Minerals estimated that the Coal Resource in this area could be in excess of 28 billion tonnes. Coal has previously been mined in parts of this area as an extension of onshore mines.

About Energy Technology Partners LLC

Energy Technology Partners team lead by Dr Alan Singleton was previously part of Gulf Oil, Energy International and then the Williams Companies prior to the establishment of Energy Technology Partners. As well as being experts in underground coal gasification, Energy Technology Partners are also a leader in the development and use of the Fischer Tropsch technology which converts Syngas to high value, ultra clean, diesel, and jet fuel.

Dr Alan Singleton has been a prolific inventor, with 20 US patents to his name as well as more than 100 foreign counterparts. He has published extensively, with over 200 articles in the technical literature, and many presentations at national and international symposia. He has been active in the management of the Pittsburgh Coal conference, where he has been a member of its Advisory Board for over 20 years. He was a founding member of a UCG trade association by the name of The UCG Partnership (www.ucgp.com).

About Raven Ridge Resource Incorporated

Raven Ridge Resources (www.ravenridge.com) has for 20 years been managing coal seam gas and underground coal gasification projects both in the USA and internationally and serves as key geotechnical contractor responsible for exploration and resource development as well as managing the design, drilling, and completion of the underground production systems.

Raven Ridge Resources' domestic United States clients are oil, gas and coalbed methane exploration, and development companies, coal-mining companies and the United States EPA which seeks to reduce methane emissions from coal mining activities through voluntary projects. Raven Ridge Resources has provided a wide range of services to a diverse clientele including Barrett Resources, Williams Energy Ventures, BHP, Chevron USA, World Bank, International Finance Corporation, United Nations Development Programme and Pennzoil.

Internationally, Raven Ridge Resources has operated in Australia, Belgium, Bulgaria, China, Czech Republic, France, India, Indonesia, Japan, Mexico, Mongolia New Zealand, Poland, Russia, South Africa, Spain, Turkey, Ukraine Zimbabwe, and the United Kingdom.

About InSitu Energy LLC

InSitu, a jointly owned company by Raven Ridge Resources and Energy Technology Partners is active in seeking commercial underground coal gasification opportunities in a number of coal provinces in the United States and internationally.

- *Fischer Tropsch Expertise*

The Energy Technology Partners team has developed proprietary Fischer Tropsch technology based on fixed bed catalyst and reactor technology. They were responsible for the original development of the Gulf-Badger Process, and the catalyst patents were purchased by Shell and used as part

of the basis of their SMDS Process now in commercial operation in Malaysia and in construction in Qatar.

The Energy Technology Partners team has also played a leading role in:

- ▶ The development of the Statoil FT Catalyst & Process now being commercialized jointly by Statoil and PETROSA;
- ▶ An extensive family of advanced Fischer Tropsch catalyst and process patents that were recently sold to a major energy company active in the commercial GTL arena; and
- ▶ The development of the DISOL Process for the Venezuelan National Oil Company.

- ***Underground Coal Gasification Expertise***

The Energy Technology Partners team and Raven Ridge Resources have conducted several successful underground coal gasification trials in the United States in association with the United States Department of Energy.

UCG Projects	Type		Duration
Rawlins 1 Wyoming	Steeply Dipping Bed	Feasibility	1 month duration, up to 70 T/D
Rawlins 2 Wyoming	Steeply Dipping Bed	Demonstration	3 month duration with gas utilisation, up to 200 T/D
Rocky Mountains 1	Flat seam	Demonstration	3 month, defining work on CRIP, up to 200 T/D
New Zealand		Commercial Trial	A series of projects over a 10 year period of time ending in small test burn (1994)

In the more recent of these projects, they developed a program for exploration and development of underground coal gasification resources near Rawlins, Wyoming for Williams Energy Ventures. Raven Ridge Resources developed and managed state-of-the-art drilling and completion operations for this project, and designed a database that allowed retrieval of geotechnical information for mapping and modelling applications.



Figure 3: Underground Coal Gasification Trials at Rawlins Wyoming

Raven Ridge Resources and the Energy Technology Partners team conducted the demonstration of the Controlled Retracting Injection Point (“CRIP”) technology at Rocky Mountains 1 and ran successful trials in partnership with Electricity Corporation of New Zealand and Glencol Energy in New Zealand, while at the same time maximizing the efficiency of UGC development drilling and resource recovery.

About Rick Somerton, Managing Director of Energie Future

Rick Somerton has over 20 years of banking and investment banking experience. He has successfully led teams at Westpac, AIDC, Swiss Bank Corporation and most recently at Salomon Smith Barney where he was Australian head of Power Energy and Utilities.

Throughout his career Rick has facilitated a raft of mining oil and gas, industrial and infrastructure projects across the region. In the primary industry sector these projects include, Coal, Gold, Iron Ore, Nickel, Uranium, Magnesite and Oil and Gas. Industrial projects include, Petrochemicals, Chlor Alkali, Sodium Cyanide and Iron and Steel. Major infrastructure projects include Toll Roads, Power Stations and Heavy and Light Rail.

Terms of the Acquisition of 51% of Energie Future

The essential terms of the Sale and Purchase Agreement are:

- East Coast will acquire 51,000,000 ordinary shares (51%) of the capital of EFNL in consideration for:
 - ▶ The issue of 1 million fully paid shares in East Coast; and
 - ▶ Funding the operations of Energie Future for the next twelve months or up to \$1.5 m. This funding is subject to conditions which could result in the claw back of up to 26% of East Coast’s interest, pro rata to any amount not funded;
- It is intended that prior to execution of the option, the Directors will secure appropriate funding for East Coast;
- At the time of acquisition, the original shareholders of Energie Future will hold 80 million performance-based options in EFNL to acquire partly paid shares of 10 cents each credited as paid to 1 cent (“**Performance Options**”). The key terms of the Performance Options are:
 - ▶ They will only vest once the value of EFNL has been established as meeting the “**Vesting Price**” (as shown below) by reference to an arm’s length third party investing in EFNL. The date by which this must happen is shown below as the “**Option Expiry Date**”;
 - ▶ The partly paid shares must be paid in full by the “**Paid in Full Date**” (shown below) otherwise they will be subject to forfeiture;
 - ▶ EFNL will not be able to make calls on the partly paid shares issued pursuant to the options until the last day of the Paid in Full Date;

- ▶ Tranche 3, 4 and 5 of the Performance Options will lapse in the event of Rick Somerton ceasing to be Managing Director of EFNL for “Just Cause” or for lack of skill;

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
No Options on Issue	8 Million	8 Million	16 Million	32 Million	16 Million
Vesting Price	10 cents	20 cents	30 cents	50 cents	70 cents
Option Expiry Date	2 years	2 years	3 years	4 years	5 years
Paid in Full Date	5 years	5 years	4 years	3 years	2 years

In addition to the above Performance Options, a further 20 million options in EFNL to acquire partly paid shares of 10 cents each credited as paid to 1 cent will be reserved for InSitu (“**InSitu Options**”). The key terms of InSitu Options will be:

- They will only vest once the value of EFNL has been established as meeting the “**Vesting Price**” (as shown below) by reference to an arm’s length third party investing in EFNL. The date by which this must happen by is shown below as the “**Option Expiry Date**”;
- The partly paid shares must be paid in full by the “**Paid in Full Date**” (shown below) otherwise they will be subject to forfeiture;
- EFNL will not be able to make calls on the partly paid shares issued pursuant to the Options until the last day of the Paid in Full Date.

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
No Options on Issue	2 Million	2 Million	4 Million	8 Million	4 Million
Vesting Price	10 cents	20 cents	30 cents	50 cents	70 cents
Option Expiry Date	2 years	2 years	3 years	4 years	5 years
Paid in Full Date	5 years	5 years	4 years	3 years	2 years

Other Payments

In addition to the above, there are incentive payments due to the Mr Somerton and InSitu which are based on key deliverable targets.

Further Information:

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