

16 December 2008

ASX Announcement

Equatorial moves to take over mining operations at Alam Duta

In May 2008, EQX announced that the Company had agreed terms with PT. GSB Resources (GSB) to act as the Alam Duta mining contractor and appointed them to conduct mining and other services, including the removal of overburden at the Alam Duta site, mining of the coal and hauling the coal stockpile to the port.

The performance of GSB has not met expectations and EQX has had to play a more active role in the day to day management of GSB and mining operations for the past three months in a bid to try to get some stability into the day to day operations at Alam Duta. This underperformance has exacerbated the delays in meeting production targets due primarily to the poor weather in the South Kalimantan region.

As detailed in the September 2008 quarterly update, EQX has therefore been reviewing the possibility of taking over the mining contractor role at Alam Duta in terms of equipment fleet and personnel. Any decision whether to proceed in that way had to be based on the expected improvement in returns to EQX under this scenario, weighed against the additional capital expenditure required.

After considering the matter in detail, a decision has now been made to bring the mining operations function into EQX as the Company believes that this will lead to more reliable production performance. Accordingly, the Board of EQX announces today that the Company has served a Notice of Termination on mining contractor GSB.

As a result of this decision, it is expected that the net margin from coal sales will improve over the life of the operation, as the costs associated with outsourcing the mining contractor work will have been removed. There will however be a requirement for EQX to supply additional working capital to the day to day operation in the short term.

This additional funding has been budgeted for and the Company has also been in discussions with its Indonesian partner, PT. Mega Coal Indomine (Mega Coal) regarding this decision, EQX's need to provide additional working capital to Alam Duta, and the need for Mega Coal to do all it can to support this new initiative.

Mega Coal has acknowledged that this decision is in the best interests of the ongoing relationship between EQX and Mega Coal and has committed to do all it can to assist in the matter. The additional funding required by EQX to get to the point of full production capacity,

will be recoverable by EQX as part of the Mega Coal "Life of Mine" contract at Alam Duta, in the same way as the original development costs associated with the mine site.

Commenting on the decision, EQX Managing Director Jim Dracopoulos said, "Notwithstanding the inevitable disruption to site activities as a result of this change, we remain on track at Alam Duta to make our 1st sales of coal shortly. The current onsite stockpile stands at approximately 8,000 tonnes and assuming weather and road conditions remain favourable, we expect to sell this coal over the coming month. Our intention is to increase monthly production to 30,000 tonnes per month during the first quarter of 2009 and then ramp up production to 75,000 tonnes per month by June 2009. The decision to take over mining operations is an important step in achieving reliability in our production performance."

Any questions on this announcement should be directed to the Company on (08) 9322 8222.

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