



## Proposed Issue of Convertible Notes

**Wednesday, 27 October 2010:** Environmental Clean Technologies Limited (**ECT** or **Company**) (ASX:ESI) wishes to announce it is currently in advanced discussions with La Jolla Cove Investors, Inc. (**La Jolla Cove**) in respect of a financing arrangement which is expected to be implemented in late October 2010. Under the agreement governing the financing arrangement (**Funding Agreement**), the Company will issue a series of convertible notes to La Jolla Cove with a total issue price of up to US\$2,500,000 (**Convertible Notes**).

The Company will seek shareholder approval for the issue of the Convertible Notes, for the purposes of ASX Listing Rule 7.1, at the Company's Annual General Meeting scheduled to be held at 10.00am on Friday, 26<sup>th</sup> November 2010. A Notice of Annual General Meeting is being dispatched to shareholders of the Company today.

The key terms of the proposed Funding Agreement are as follows:

- The Company will issue Convertible Notes to La Jolla Cove progressively on receipt of payments towards the US\$2,500,000 aggregate issue price of the Convertible Notes. La Jolla Cove will apply and pay for, and the Company will issue, Convertible Notes as follows:
  - Convertible Notes with a face value of US\$400,000, within 2 Business Days after execution of the Funding Agreement (which is expected to occur in late October);
  - Convertible Notes with a face value of US\$400,000 on or about 27 November 2010; and thereafter
  - Convertible Notes with a minimum face value of US\$250,000 each month until the entire aggregate issue price of US\$2,500,000 is fully subscribed.
- No interest will be charged on the Convertible Notes unless the market price of the Company's ordinary shares is trading on ASX below \$0.020 (2 cents) per share. In such case, interest will be payable on the full outstanding principal amount of the Convertible Notes (being, the aggregate amount of any outstanding funded and non-converted Convertible Notes) for each day on which the trading price of the Company's shares is below \$0.020 (2 cents) at a rate of 4.75% per annum. Interest will be payable monthly in arrears and will be paid, at the Company's option, by either cash or the issue of new ordinary shares in the Company.
- The maturity date of the Convertible Notes will be three years after the issue of the initial Convertible Note. On this date, ECT will be required to repay the outstanding principal amount of the Convertible Notes (the issue price to the extent the notes have not been converted).
- At the election of La Jolla Cove, the Convertible Notes may be converted, either in whole or in part, into fully paid ordinary shares in ECT. The number of ordinary shares into which the Convertible Notes may be converted will be equal to the dollar amount being converted divided by the Conversion Price. The "Conversion Price" will be equal to the lesser of:
  - (a) the "ceiling price" of \$0.20 (20 cents per share); and
  - (b) 80% of the average of the three lowest Volume Weighted Average Prices during the 15 trading days prior to La Jolla Cove's election to convert.

However, the aggregate number of ordinary shares converted must not exceed any limitations imposed by the 15% limit set out in ASX Listing Rule 7.1, without the prior approval of shareholders. Where shareholder approval is required, La Jolla Cove may request ECT to convene an Extraordinary General Meeting of the Company for the purpose of seeking such approval.

- The Convertible Notes will include a "floor price" of \$0.020 (2 cents), such that if the Company's ordinary shares are trading on the ASX at or below the floor price at any time La Jolla Cove seeks to convert all or a portion of the Convertible Notes, the Company will have the right to elect to refuse the proposed conversion in exchange for redemption of the portion of the Convertible Notes that La Jolla Cove sought to convert.
- The Company may terminate the financing arrangements if the trading price of the Company's ordinary shares falls below \$0.010 (1 cent) for a period of at least 10 consecutive trading days. If the Company terminates the financing arrangements on this basis, La Jolla Cove will not pay any outstanding amount of the aggregate issue price and will only be entitled to convert so much of the Convertible Notes as have been issued by the Company as at the date of termination..
- The Convertible Notes will be issued in USD but all conversions of the Convertible Notes into ordinary shares in the Company will be made in AUD based on the actual AUD amount received by the Company in its bank account by the payment of the various issue prices for the Convertible Notes held by La Jolla Cove in accordance with the terms summarised above.

ECT will use the funds raised through the issue of the Convertible Notes for:

- further commercialisation of the Company's Coldry technology, including ongoing feasibility studies and design work for a demonstration plant;
- further development of the Matmor technology; and
- on-going working capital requirements.

La Jolla Cove will also be providing ECT with assistance in penetrating the US market for the purpose of exploiting the Company's technology, including introductions to potential partners.

**For Further Information Contact:**

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**About ECT**

ECT is in the business of commercialising and selling disruptive, leading-edge technologies that have game-changing potential within the energy and resources sector that are capable of delivering environmental and commercial benefits.

We are focused on advancing a portfolio of such technologies that have attractive market potential. This potential is largely informed by global markets that exhibit significant potential for growth and enable us to secure sustainable profits through licensing royalties or other commercial mechanisms.

**About Coldry**

When applied to lignite and some sub-bituminous coals, the mechanically simple Coldry process produces a black coal equivalent (BCE) in the form of pellets that are stable, easily stored, can be transported and which can be of equal or better energy value than many black coals, whilst significantly reducing CO2 emissions.

**About Matmor**

The Matmor process is positioned to revolutionise primary iron making thanks to the design of our simple, low cost, low emission, patented Matmor retort using cheaper, alternative raw materials.

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