

ECS Limited

25 January 2012

Further to the announcement by ECS Limited (**Company**) on 13 April 2011 and 8 July regarding the proposed acquisitions, the Company wishes to update shareholders on the outcome of its due diligence investigations, the progress of ongoing negotiations and announce the proposed acquisition of seven (7) Hungarian coal permits.

Europe Hungary – UCG Highlights

- **7 coal permits totalling 738 sq. km in size located close to infrastructure with access to both road and rail in area(s) rich in historical coal mining**
- **Central European location with highly developed infrastructure and distribution channels**
- **Extensive historical technical data available on all permits including extensive well logs, maps and sampling data**
- **Existing data on the coal seams has been drawn from over 11,000 exploration wells on permits drilled primarily by government agencies and domestic companies**
- **The Company's priority is to analyse all available historical data and confirm target size and JORC resources for appropriate locations**
- **Underground Coal Gasification (UCG) is an established technology with long-term use in numerous locations from South Africa to Uzbekistan**

Africa Namibia – Uranium Highlights

- **2 Permits located close to infrastructure with access to both road and rail in areas(s) rich in Uranium mining**
- **Namibia has highly developed infrastructure and distribution networks**
- **Preliminary exploration works have identified the presence of Uranium**
- **Uranium in the long term will be a high demand commodity**

1. Proposed new Coal Acquisition

The Company is pleased to announce it has entered into an agreement to purchase from Mutual Wide Corporation (**Mutual Wide**) an option to acquire from Synclean Energy PLC (**Synclean**) all of the issued shares in its wholly-owned Hungarian subsidiary Synclean Resources Kft (**Synclean Subsidiary**) which owns seven (7) Hungarian coal permits (**Hungarian Permits**).

The Hungarian Permits cover an approximate 738km² area prospective for UCG-suitable coal seams.

The Hungarian Permits are primarily located in two different regions of Hungary.

Permits 1, 2, 6 and 7: The Veszprem Bakony North, Gerecse and Berhida permits are located in the west of the country.

Permits 3, 4 and 5: The Mecsek Mountain Hergyhat, Komlo and Hosszuheteny permits are located in southern Hungary, near the border with Croatia.

In general, coal seams in Hungary have a comparatively low calorific value, with high ash and sulphur contents. However, for UCG purposes, this is not an issue as ash remains in the coal seam after production and sulphur is not mobilised at the UCG process temperature.

Permit details

The Hungarian Permits are located in areas of relatively good infrastructure with access to both road and rail in an area with a rich history of mining. The permits are also located close to potential markets and well situated to take advantage of the regional pipeline network and power stations.

The Hungarian Permits are exploration permits whereby, if the Company decides to exercise the option and acquire the Hungarian Permits, the Company will have exclusive rights to explore and investigate coal seams suitable below 300m for UCG use.

Subsequent to successful exploration, a successful test burn and the completion of a bankable feasibility study (BFS), the Company can apply to the authorities for a production licence.

The Company has access to a wealth of historical technical data on all of the Hungarian Permits, which the company will use to help fast track the initial site selection process. The historical data is extensive and includes well logs, maps and sampling data.

Permits 1, 2, 6 and 7: Vespem

The Vespem permits, comprised of Bakony-North I, Bakony-North II, Gerecse and Berhida are located in the west of Hungary.

From analysis of historical data, the permits are known to contain resources of high-grade brown coal that the Company believes is well suited for use as part of a potential UCG operation. The term “brown coal” covers a broad and variable range of low-rank coals, typically including lignite and some low-rank sub-bituminous coals. Brown coals were subjected to a lower level of coalification than hard black coals.

The permits contain between 2 and 4 coal seams at a depth of below 300m. The average thickness of the seams is 2m, with a maximum thickness of 4m developed in some areas of the permit.

Existing data on the coal seams has been drawn from over 11,000 exploration wells on permits, drilled primarily by government agencies and domestic companies. Most of the historical data is still held in state libraries and mining district offices. The Company will now focus on evaluating historical data and identifying potential targets for site selection.

Plugged and abandoned exploration well



Permits 3, 4 and 5: Mecsek Mountains

The Mecsek Mt permits are comprised of three separate permits; Volgyseg-Hegyhet, Komlodeep and Hosszuheteny West. The permits are located in the south of Hungary, north of Pécs, the fifth largest city in Hungary with a population of 150,000 and a long history of mining.

Synclean believes that the permit areas are well suited for UCG process technology. The Company will now evaluate exploration targets.

The exploration target in Mecsek is black coal, a higher rank coal than the potential resource on the Vesprem Bakony permits. As such, the potential black coal resource on the Mecsek Mt permits generally has a higher calorific value. Historical data indicates that the permits contain up to 60 separate coal seams. The coal seams attain a maximum thickness of 30m, although the mean seam thickness in the permit area is approximately 1m.

The coal seams in the Mecsek area are located deeper than on the Vesprem Bakony permit area with depths in excess of 450m, 550m and 800m for Hosszuheteny, Hegyhat, and Komlo-deep respectively.

The greater depth of the seams makes the coal ideal for UCG purposes as UCG can exploit coal seams that are uneconomic for conventional mining.

Hungary

Hungary became a Christian kingdom in A.D. 1000 and for many centuries served as a bulwark against Ottoman Turkish expansion in Europe. The kingdom eventually became part of the polyglot Austro-Hungarian Empire, which collapsed during World War I. The country fell under Communist rule following World War II. In 1956, a revolt and an announced withdrawal from the Warsaw Pact were met with a massive military intervention by Moscow. Under the leadership of Janos KADAR in 1968, Hungary began liberalizing its economy, introducing so-called "Goulash Communism." Hungary held its first multiparty elections in 1990 and initiated a free market economy.

With a population of approximately 10 million and a land area of 35,919 square miles, Hungary is located in Central Europe

It joined NATO in 1999 and the EU five years later. In 2011, Hungary assumed the six-month rotating presidency of the EU for the first time.



Source: CIA World Fact Book

We believe that the Company has identified a very attractive opportunity to develop UCG projects in Hungary. In summary, the predominant factors include:

1. Hungary's domestic oil and conventional gas production falls far short of demand
2. Hungary has significant coal reserves of which new exploitation by conventional mining has been banned by the government
3. The country does not have energy security and is highly dependent on Russia and the Ukraine for its gas imports
4. European gas prices are high
5. European and local gas and power infrastructure is highly developed and all producers have the right to deliver gas into the grid

Hungary at the heart of gas transit routes

Russia dominates the gas transit routes into Central and Eastern Europe. Hungary is very well connected to the pipeline infrastructure. However, some of its neighbours had commercial disagreements over gas prices / disruptions – Ukraine bearing the brunt of these commercial pricing influences.

Although Hungary has had no such commercial disagreements with its Eastern suppliers, the knock-on effect of reduced supply into the Eastern and Central European gas infrastructure that reduced significantly Hungary's energy security and now accelerates the impetus for increased domestic solutions.

Local Grid is well developed

The upside to Hungary's relatively precarious international position within the European gas grid is that its domestic gas transportation infrastructure is highly developed and everyone has the right to put gas into the grid assuming that the methane content is sufficiently high (>90%).

Gas pipelines into Eastern and Central Europe

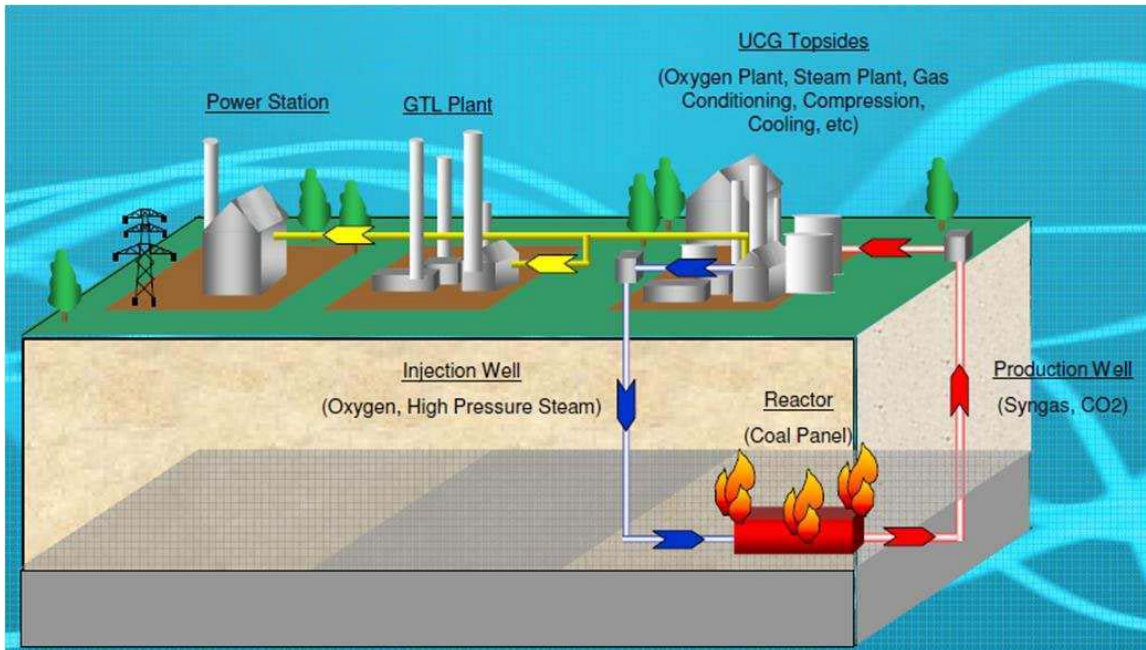


Underground coal gasification (UCG)

Underground coal gasification (UCG) is an in-situ process that converts coal into gas while still in the coal seam. The gas is produced and extracted from wells that are drilled into the un-mined coal seam, using similar horizontal drilling techniques to those employed in the oil and gas industry.

In short, injection wells are used to supply oxidants such as air, oxygen or high-pressure steam to ignite the coal underground. The underground combustion process releases carbon dioxide (CO₂) and synthesis gas (syngas), which is a combination of hydrogen (H₂) and carbon monoxide (CO). These gases are captured by separate production wells and brought to the surface facilities for processing.

Outlined below is a representation of a standard UCG process.



The UCG process

In a standard UCG process, oxygen is injected into the coal seam and used to fuel combustion of the in-situ coal. The high-pressure combustion is conducted at temperatures in the range of 700°C - 900°C although temperatures may reach 1,500 °C during this part of the process. This heating process decomposes the coal and generates carbon dioxide along with hydrogen and carbon monoxide.

The operator on the surface controls the oxidants injected into the coal seam and as the coal seam burns, the gases in the reactor (coal panel) are generated.

Syngas production is cleaner than coal mining

Syngas/SNG production has a relatively low surface impact given that the facilities have no greater impact than any other comparable industrial complex. There is no surface impact from tailings that are associated with standard coal mining and the wellheads for the injection and production wells are relatively small and can easily be obscured, as is common in the oil and gas industry.

We believe that UCG is a one of the cleanest hydrocarbon production technologies as all CO₂ produced has the potential to be captured easily as a result of the engineering of the gathering equipment within the surface facilities. As such, CO₂ emissions can be mitigated to a significant extent.

ECSI Limited UCG Peer Group

The Company has a number of listed peers involved in UCG that serve as a helpful reference point to the company's activities.

The oldest operating UCG plant in the world is in Uzbekistan (more 50 years) at Angren – now operated by Linc Energy.

Of particular interest is Wildhorse Energy (ASX: WHE).

The company's interest in Hungary is highly indicative of the attractive potential for UCG projects in the country.

2. Acquisition of African mining assets

As foreshadowed in the April and July announcements, the Company has been conducting due diligence investigations in relation to the acquisition of certain interests in uranium tenements in Africa (**African Sale Assets**). The Company's due diligence has now been completed.

As a result of the due diligence investigations, the Board has resolved to progress certain aspects of the proposed acquisition of the African Sale Assets by finalising all legal documentation necessary to give effect to the proposed transaction including sale agreements, notice for a general meeting of shareholders and a draft prospectus.

Namibian Acquisition

The Company is pleased to announce that it will be proceeding with the purchase of a 70% interest in the Hoasib Project located in Swakopmund, Namibia (**Namibian Assets**) from Africa Uranium Limited (**AUL**).

The Company has received very encouraging technical reports from AUL from recent drilling that gives confidence in the long-term future of the relevant permits.

The Company is currently in discussions with Bastos Foundation (Pty) Ltd for the acquisition of the remaining 30% interest in the Namibian Assets.

Mauritania Acquisition

The Company has decided to enter into an arrangement with Resource Investments International Pty Ltd (**RII**) and Maadin Natural Resources under which the Company will have the exclusive right to acquire, and negotiate a revised purchase price for, the four uranium permits in Bir Moghreïn, Mauritania (**Mauritanian Permits**) for a period of up to 12 months.

This will allow the Company to conduct further work on the Mauritanian Permits to ensure that the Mauritanian Permits bring value to the Company and does not dilute shareholder value.

South African Acquisition (Jonkers Project)

The Company has decided to enter into an arrangement with RII under which the Company will have the exclusive right to acquire, and negotiate a revised purchase price

for, RII's interest in the Jonkers Leegte Project located in Beaufort West District of Western Cape, South Africa (**Jonkers Project**) for a period of up to 12 months.

This will allow the Company to conduct further work on the Jonkers Project to ensure that it will bring value to the Company and does not dilute shareholder value.

South African Acquisition (Karoo Project)

The Company has decided to enter into an arrangement with AUL under which the Company will have the exclusive right to acquire, and negotiate a revised purchase price for, AUL's interest in the Karoo Project located in Fraserburg, South Africa (**Karoo Project**) for a period of up to 12 months.

This will allow the Company to conduct further work on the Karoo Project to ensure that it will bring value to the Company and not dilute shareholder value.

3. Consideration for the Sale Assets

Coal Acquisition

The Company has entered into a formal agreement with Mutual Wide and Synclean under which Mutual Wide assigned to the Company its rights to an option to purchase all of the shares in the Synclean Subsidiary_ which owns the Hungarian Permits from Synclean (**Option**).

The exercise price under the Option is \$8.1 million, payable as scrip consideration. The number of shares the Company will issue to Synclean on the exercise of the Option will be determined on a post-consolidation basis.

In consideration for the assignment of the Option, the Company has agreed to pay Mutual Wide \$100,000 (to be paid in 3 instalments) and issue the number of shares in the Company calculated as follows:

$$A = B - (C / D)$$

where:

A = the number of shares in the Company to be issued to Mutual Wide

B= 1,770,000,000

C = \$8,100,000

D = the price per share in the Company immediately following consolidation

Uranium Acquisition

The Namibian Assets are wholly owned by Green Mineral Resources Pty Ltd (**GMR**). The Company has entered into a binding term sheet with AUL under which the Company has agreed to issue 800,000,000 shares in the Company to AUL in consideration for AUL's interest in the Namibian Assets, being 70% of the issued shares in GMR.

4. Change of activities

The completion of any one or more of the acquisition of the African Sale Assets and the Coal Acquisition will constitute a change to the principal activities of the Company. Accordingly, the Company will be required to:

- comply with the requirements of chapter 11 of the ASX Listing Rules;
- obtain shareholder approval for the proposed transactions; and
- issue a prospectus and otherwise satisfy the listing requirements of Chapters 1 and 2 of the ASX Listing Rules as though the Company was undertaking an initial public offering.

If the Company's shareholders approve any one or more of the proposed transactions, the Company's shares will be suspended from trading from the date shareholder approval is given until the requirements in Chapters 1 and 2 of the ASX Listing Rules have been satisfied.

Consolidation of shares and options

As part of the change of activities and the application of Chapters 1 and 2 of the ASX Listing Rules, the Company will have to consolidate its shares to comply with the 20 cent rule. As recent trading in the Company's shares has occurred in the range of 0.5 cents and 1 cents, it is currently anticipated that the consolidation could be done on a 20:1 basis. The final consolidation ratio will be confirmed at a later date. If the consolidation ratio changes, then the number of shares to be issued to the relevant sellers will change.

A pro forma post-completion capital structure is attached which illustrates the impact of all proposed transactions and consolidation. If the consolidation ratio changes, then the pro forma capital structure will change.

Financial position of merged entity

The Company has prepared an updated pro forma balance sheet of the merged entity that is attached to this announcement.

The pro forma balance sheet is based on the negotiated purchase price for the shares in the Synclean Subsidiary and the Namibian Assets. The Company will commission an independent expert's report to accompany the notice of general meeting in which the expert will opine on whether the proposed acquisition is fair and reasonable to the Company's shareholders. As part of its report, the independent expert will consider the value of the assets proposed to be acquired.

Impact on capital structure

An updated pro forma post-completion capital structure is attached that illustrates the impact of all proposed transactions and consolidation. The attached capital structure assumes a consolidation ratio of 20:1. If the consolidation ratio changes, then the pro forma capital structure will change.

4. Timetable

The Company wishes to advise that, in light of the changes to the proposed transaction detailed above, the Company will provide an update at a later time once a revised timetable has been agreed.

In the meantime, the Company is also progressing preparation of the notice of general meeting and prospectus in anticipation of requiring shareholder approval for the proposed transaction and satisfying the listing requirements under Chapters 1 and 2 of the ASX Listing Rules.

For further information, please contact the Company.

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