

5 March 2010

Dear Shareholder

Company Update

Further to the June 2009 Shareholder Update and the update of progress of the Pilot Plant Project provided at the Company's annual general meeting (AGM) in Melbourne on 30 November 2009, the directors are pleased to provide you with a further update on the Company's activities.

Pilot Plant Progress

As announced on the Company's website (www.ethtec.com.au) in November 2009 and as also noted at the 2009 AGM, Phase 1 of the Pilot Plant Project (Project) has been successfully completed.

Phase 1, one of the most critical phases of the Project, has demonstrated that a twin screw extruder can be used to efficiently impregnate dried lignocellulosic materials (radiata pine and sugar cane bagasse) with concentrated sulphuric acid. It has also demonstrated that the hemicellulose and cellulose components of the acid impregnated material can then be efficiently converted to sugars, from which "second generation" or "cellulosic" ethanol could ultimately be produced.

The conversion of lignocellulosic materials to sugars as demonstrated in Phase 1 is achieved in approximately ten minutes in an in-line processing operation. The main significance of this result is that the principal alternative method of conversion, namely enzymatic hydrolysis, requires approximately three days and is in effect a batch processing operation. This means that the process demonstrated in Phase 1 potentially will be more efficient for commercial application than enzymatic hydrolysis processes.

Based on the outcomes achieved in Phase 1, the Ethtec board has resolved to proceed with Phase 2 of the Project. Apace Research Limited (Apace) has advised that the duration of Phase 2 is expected to be approximately 18 months. Progression to Phase 2 requires the successful completion of a capital raising, which is discussed later in this Update.

Phase 2 of the Project involves four stages. These are:

- lignin filtration;
- separation of sugars from sulphuric acid using simulated moving bed ion exclusion chromatography technology;
- sulphuric acid reconcentration and recycling; and
- water treatment and recycling.



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Commercialisation of the Apace technology

Ethtec holds an exclusive worldwide licence from Apace to commercialise the patented Apace technology.

Successful completion of Phase 2 may provide Ethtec with technology that is capable of being marketed to generate income for the Company.

Phases 3 and 4, which involve production of cellulosic ethanol from the sugars produced by Phases 1 and 2, could be undertaken on successful completion of Phase 2.

If Phase 3 and/or Phase 4 fail, this should not limit the Company's ability to market the Apace technology for the production of sugars from lignocellulosic materials, if successfully demonstrated in Phase 1 and Phase 2.

The planning and preliminary works required for the undertaking of Phase 2 have been in-progress since the conclusion of Phase 1 and major capital works for Phase 2 will commence subject to funding.

Diesohol Agreement

Ethtec has a current agreement with Apace to advance the commercialisation of the Apace Diesohol technology. Diesohol is an emulsion of hydrated ethanol in diesel fuel.

There is insufficient "first generation" ethanol produced from the traditional starch and sugar feedstocks in Australia to support any significant level of use of Diesohol by the mining and transport industries. The Ethtec board considers that successful commercialisation of ethanol production from lignocellulosic materials is required for the production of ethanol in large volumes at a cost that is competitive in the market place. This could then drive the use of Diesohol by industry. Accordingly, the priority of the Ethtec board is the further development and commercialisation of the Apace technology for the production of ethanol from lignocellulosic materials.

Capital Raising

Further to the June 2009 Shareholder Update, the board has estimated that Ethtec will need to raise approximately \$5.9 million to complete Phase 2 of the Project and the most effective means of raising this additional capital will be through a rights issue to existing shareholders.

Shareholders will be further informed of the capital raising through a prospectus for the issue of ordinary shares, which is expected to be distributed during April 2010.

Rights issue underwriting

The Ethtec board has directed that the rights issue must be fully underwritten to provide certainty for the current planning stage of Phase 2 and to ensure that the matching funding requirement of the Climate Ready grant is met.

Hinchinbrook Nominees Pty Ltd, a company associated with an Ethtec director, Mr Robert Carey, has indicated a willingness to provide the required underwriting of the rights issue. A formal underwriting agreement is proposed to be entered into between Hinchinbrook Nominees Pty Ltd and Ethtec and the terms of the underwriting agreement will be disclosed in the rights issue prospectus.

Board Structure

Ethtec reported in the June 2009 Shareholder Update details of a request by its majority shareholder, Willmott Forests Limited (Willmott Forests), to convene a general meeting to put a motion to remove Mr Carey as a director of Ethtec. Mr Carey subsequently commenced proceedings in the Supreme Court of Queensland seeking certain declarations and orders, including an injunction to restrain the holding of the general meeting of members.

The Company agreed to the injunction by consent order, without any admissions. Other orders were made by the court as to the conduct of the dispute and the matter of the proceedings was adjourned to the Supreme Court of Queensland Registry. The general meeting of members that was held on 22 June 2009 was adjourned and the business of the meeting carried over.

The board reported at the 2009 AGM that the dispute between Willmott Forests, Mr Carey and the Company has been resolved.

Willmott Forests served a notice on Ethtec on 29 October 2009 advising the withdrawal of its notice of intention to remove Mr Carey as a director of Ethtec.

Mr Carey filed a Notice of Discontinuous in the Queensland Supreme Court on 13 November 2009, thereby terminating the Supreme Court proceedings.

Accordingly, the general meeting of members that was adjourned on 22 June 2009 is now not required and has been cancelled.

New director

The board recently appointed Mr Ian Bond as a director of Ethtec.

Mr Bond was a senior partner of Burke Bond Partners Chartered Accounting Group, a multi-faceted consulting firm, until 1997. He developed the Burke Bond Securities Group, based in Melbourne, which provides independent professional advice in corporate governance, compliance, internal audit and ASX compliance. Mr Bond is a member of CPA Australia, a registered company auditor, a member of the Australian Institute of Company Directors, a member of the Institute of Internal Auditors Australia and a member of the Financial Planning Association of Australia. Mr Bond is a former non-executive director of Willmott Forests.

Mr Bond's appointment to the board of Ethtec follows the recent resignations from the board of Mr Jonathan Madgwick, Mr Marcus Derham and Mr John Rutledge. Following the resignations, Mr Robert Carey has replaced Mr Madgwick as company secretary.

Administration Services

Willmott Forests has recently advised the Company that the agreement under which Willmott Forests provides administration, finance, compliance and marketing services to Ethtec will terminate on 19 April 2010.

The Ethtec board has resolved that, in the period before completion of the Rights Issue, the administration services previously provided by Willmott Forests will be provided by Carey Accountants Pty Ltd, a public accountancy practice associated with Mr Robert Carey. Carey Accountants Pty Ltd was established in the 1976 and has offices in Townsville, Ingham and Cardwell.

EXTRAORDINARY GENERAL MEETING

Special resolution - amendment to the constitution of the Company

Mr Carey has informed the board that he was appointed as a director of the Company in a representative capacity and that he represents the interests of 49% of the shareholders, being those shareholders other than the major shareholder, Willmott Forests, however this representation has never been formalised.

The Ethtec board wants to ensure that shareholders or groups of shareholders that own a substantial amount of the Ethtec share capital are adequately represented on the Ethtec board, however the existing Ethtec constitution does not recognise representative directors.

A proposed amendment to Ethtec's constitution will be put to shareholders by way of a special resolution and, if adopted, will allow a shareholder (individual or corporation) or group of shareholders that holds at least 25% of the Company's share capital to appoint a director to the Company's board to represent their interests. Willmott Forests have indicated that they will vote in favour of this special resolution.

The board has resolved to convene an extraordinary general meeting (EGM) of members to consider the special resolution to amend the constitution of the Company as outlined above.

A copy of the Notice of the EGM to be held in Ingham on 31 March 2010 is attached to this Update.

Ordinary resolution – appointment of Mr Carey as a representative director

An ordinary resolution will also be put to members for consideration at the EGM which, if adopted, will appoint Mr Carey as a representative director.

Willmott Forests has advised the board that it will abstain from voting on the ordinary resolution, so as to allow the minority shareholders to decide if they wish to appoint Mr Carey as their representative director.

Continuous Disclosure

Ethtec is subject to continuous disclosure obligations under the Corporations Act, which require it to notify ASIC of any price sensitive information concerning the Company.

The board considers that it would be more useful to members if any continuous disclosure notices were placed on its website, rather than on ASIC's records.

ASIC allows an unlisted company to place continuous disclosure notice on their website if the company meets certain conditions, one of which is that the company must notify shareholders that it makes disclosures in this way.



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Ethtec advises that the Company's website (www.ethtec.com.au) will be used to inform shareholders of material developments concerning the Company. Ethtec will also continue to post continuous disclosure notices to shareholders until otherwise notified.

Questions

If you have any questions arising from this update, please contact Robert Carey on (07) 4776 5300 or 0418 778 403 or Ian Bond on 0419 304 001.

Robert Carey
Director/Secretary
Ethanol Technologies Limited