

Cleansing Statement

Clean TeQ Holdings Limited
ACN 127 457 916

7 September 2010

issued under section 708(12C)(e) of the *Corporations Act 2001* (Cth) (as inserted by ASIC Class Order [CO 10/322])

This Cleansing Statement has been prepared for the purposes of section 708(12C)(e) of the *Corporations Act 2001* (as inserted by ASIC Class Order [CO 10/322]) to enable fully paid ordinary shares in the capital of Clean TeQ Holdings Limited (**Clean TeQ**) to be issued on conversion of a convertible note issued by Clean TeQ to La Jolla Cove Investors Inc. to be on-sold to retail investors.

This Cleansing Statement is important and should be read in its entirety.

Cleansing Statement

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1. The effect of the issue of the Note on Clean TeQ

1.1 Background

On 30 June 2010, Clean TeQ and La Jolla entered into the Securities Purchase Agreement pursuant to which Clean TeQ agreed to issue, and La Jolla agreed to acquire, up to 4 convertible notes (**Notes**), each with an issue price (or face value) of US\$1,500,000 (**Issue Price**).

This Cleansing Statement relates to the issue of the first Note.

An outline of the rights and liabilities attaching to the Note is provided in section 2 of this Cleansing Statement whilst a summary of some of the key terms of the Securities Purchase Agreement is provided in section 4.

1.2 La Jolla Cove Investors Inc.

La Jolla is a US based private investment company. It considers itself a leader in financing small-cap publicly listed companies and seeks to partner with businesses looking for capital and strategic advice to expand their current operations. La Jolla's expertise lies in creating flexible financial structures which enable a company to grow without impacting working capital needs.

Once La Jolla has made an investment, it seeks to add value to the company in which it has invested by providing financial resources, strategic advice and mergers and acquisitions expertise and implementation services.

1.3 The issue of the Note

Under the Securities Purchase Agreement, Clean TeQ and La Jolla have agreed that the issue of the Notes will be sequential. In each case, the obligation of La Jolla to subscribe for, and Clean TeQ to issue, a Note will arise only following the satisfaction of certain conditions. At the date of this Cleansing Statement, Clean TeQ has satisfied each of the relevant conditions (which are summarised in section 4.1) capable of satisfaction for the issue of the first Note and La Jolla will subscribe for, and Clean TeQ will issue, the first Note to La Jolla on the date of, or the day following, the date of this Cleansing Statement (**Issue Date**).

1.4 The payment of the Issue Price of the Note

The payment of the Issue Price of the first Note will be made by La Jolla in instalments, in the following manner:

- (a) on the issue date of the Note, La Jolla will pay to Clean TeQ US\$250,000 (**Initial Payment**); and
- (b) commencing in the month following the Issue Date, La Jolla will pay to Clean TeQ, on a date in that month and each subsequent month as selected by La Jolla, an amount of not less than US\$250,000 (or such lesser amount that equals the remaining amount of the Issue Price to be paid by La Jolla on a Note) (**Monthly Payment**).

La Jolla may, in its discretion, pay to Clean TeQ more than the Monthly Payment in respect of any month, and Clean TeQ may request that the Monthly Payment for a particular month be reduced to US\$125,000 or increased to an amount of up to US\$400,000.

The obligation on La Jolla to make each Monthly Payment is conditional on the satisfaction of certain conditions at the time payment is required to be made under the Securities Purchase Agreement (refer to sections 4.1 and 4.2 of this Cleansing Statement).

1.5 Purpose and effect of the issue of the Note on Clean TeQ

The Note issued by Clean TeQ will raise US\$1,500,000 (less the expenses associated with the issue of the Note). The funds raised from the issue of the Note will be used to supplement the working capital of Clean TeQ.

In the current market environment, it is difficult, and costly, for a small-cap Australian company to undertake a successful equity capital raising and, for Clean TeQ by reason of the nature of its business and asset base, to raise debt funding through Australian banks. Given these restrictions on its ability to fund working capital and/or expansion of its business, the Directors consider that the raising of capital by the issue of the Note is in the best interests of Clean TeQ as it secures, on acceptable terms and at an important time to it, the funding likely to be required by Clean TeQ in the ordinary course of the development and growth of its business in the short to medium term.

The Directors consider that the benefits of the issue of the Note to La Jolla include the following:

- the cost of the funds raised by Clean TeQ from the issue of the Note and the interest rate on the moneys provided by La Jolla is competitive in the current market;
- Clean TeQ will not be required to give security to secure repayment of the moneys advanced;
- Clean TeQ will be able to leverage La Jolla's expertise and contacts to add additional value to its business, particularly if it elects to expand its business into the US; and
- the Conversion Price (refer to section 2.8) is, in the Directors' opinion, not dissimilar to the issue price that Clean TeQ would have had to accept if it had elected to raise the required funding in the current market environment by an issue of any new Shares.

The principal effects of the issue of the Note on Clean TeQ will be to:

- (a) increase Clean TeQ's cash reserves by US\$250,000 (after deducting Clean TeQ's expenses associated with the Note issue) immediately upon the Note being issued;
- (b) subject to the terms of the Securities Purchase Agreement and satisfaction of the conditions applicable under that agreement with regard to Monthly Payments, increase Clean TeQ's cash reserves by an additional US\$1,250,000 in aggregate by way of Monthly Payments of not less than US\$250,000 each (unless Clean TeQ requests receipt of a lesser Monthly Payment – refer to section 1.4);
- (c) give rise to Clean TeQ assuming a liability for the proceeds received from La Jolla for payment of the Issue Price of the Note less any amount which has been the subject of a conversion into new Shares (**Principal Amount**);
- (d) give rise to Clean TeQ assuming an obligation to pay interest on the Principal Amount to La Jolla at the rate of 4.75% per annum monthly in arrears; and
- (e) if the Note is converted, either in whole or in part, increase the number of Shares as a consequence of the issue of new Shares to La Jolla.

In relation to paragraph (e), the number of new Shares to be issued to La Jolla will depend on whether the Note is converted in whole or in part, the applicable Conversion Price (refer to section 2.8) and the prevailing US\$/A\$ exchange rate at the time of conversion.

1.6 The effect of the Note Issue on the capital structure of Clean TeQ

The current issued capital of Clean TeQ (before the issue of the first Note) is set out below.

Type of security	Securities prior to the Note Issue	Securities following the Note Issue
Shares	58,702,827	58,702,827
Options	5,033,511	5,033,511

As noted in section 1.5, the number of new Shares to be issued to La Jolla (if any) will depend on whether the Note is converted in whole or in part, the applicable Conversion Price and the prevailing US\$/A\$ exchange rate at the time of conversion.

By way of example, if the Note is converted in whole at a time when the relevant Volume Weighted Average Share Price is A\$0.205 (which reflects the Share price at the close of trade on 6 September 2010) and the US\$/A\$ exchange rate is 91.67 US cents for every A\$1.00 (which reflects the US\$/A\$ exchange rate on 6 September 2010 (refer to section 1.8)), 9,977,464 new Shares would be issued to La Jolla as outlined below:

$$\begin{aligned} \frac{(\text{US\$}1,500,000/0.9167)}{(80\% \times \text{A\$}0.205)^*} &= \frac{\text{A\$}1,636,304.13}{0.164} \\ &= 9,977,464 \text{ new Shares} \end{aligned}$$

* Also refer to section 2.8

Based on the number of Shares on issue at the date of this Cleansing Statement, as set out in the table below, the issue of 9,977,464 new Shares to La Jolla would give La Jolla a relevant interest in approximately 14.53% of the expanded total number of Shares. It is, however, important to note that this is an illustration only based on full conversion of the Note and the example Volume Weighted Average Share Price and US\$/A\$ exchange rate referred to above. The actual outcome, if La Jolla elects to convert the Note in whole or in part, will depend on that election and the Conversion Price and the prevailing US\$/A\$ exchange rate applicable at the time of conversion.

Shareholder	Number of Shares	Percentage of Total Shareholding
Existing Shareholders	58,702,827	85.47%
La Jolla	9,977,464	14.53%
TOTAL	68,680,291	100%

1.7 Pro forma balance sheet of Clean TeQ taking account of the Note Issue

Set out below are the audited consolidated Statement of Financial Position as at 30 June 2010 and the pro forma consolidated Statement of Financial Position as at 30 June 2010 for Clean TeQ prepared on the basis of the accounting policies normally adopted by Clean TeQ.

The audited historical and pro forma financial information is presented in an abbreviated form in so far as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

The pro forma consolidated Statement of Financial Position as at 30 June 2010 is based on the audited consolidated Statement of Financial Position as at 30 June 2010 and has been adjusted to reflect the Note Issue.

	Audited Consolidated Statement of Financial Position as at 30 June 2010 \$'000	Pro Forma Adjustment \$'000	Pro Forma Consolidated Statement of Financial Position as at 30 June 2010 \$'000
Current Assets			
Cash and cash equivalents	3,355	1,500	4,855
Trade and other receivable	2,531		2,531
Inventories	2,089		2,089
Total Current Assets	7,975		9,475
Non-Current Assets			
Deferred tax asset	1,582		1,582
Plant and equipment	423		423
Intangible assets	12,235		12,235
Total Non-Current Assets	14,240		14,240
Total Assets	22,215		23,715
Liabilities			
Current Liabilities			
Trade and other payables	2,762		2,762
Loans and borrowings	28		28
Employee benefits	356		356
Other liabilities	1,070		1,070
Total Current Liabilities	4,216		4,216
Non-Current Liabilities			
Loans and borrowings	93	1,500	1,593
Deferred tax liabilities	3,246		3,246
Employee benefits	29		29
Total Non-Current Liabilities	3,368		4,868
Total Liabilities	7,584		9,084
Net Assets	14,631		14,631
Equity			
Issued capital	8,175		8,175
Retained earnings	6,256		6,256
Share option reserve	200		200
	14,631		14,631

1.8 US\$/A\$ exchange rate

As the Issue Price of the Note is denominated in US dollars, the exchange rate between US dollars and Australian dollars at any given time will be relevant.

It is important to note that the US\$/A\$ exchange rate may vary from time. As at 6 September 2010 the US\$/A\$ exchange rate equated to approximately 91.67 US cents for every Australian dollar (ie. US\$0.9167 = A\$1.00).

The US\$/A\$ exchange rate will impact on the amount (in Australian dollars) owed by Clean TeQ to La Jolla from time to time and is relevant, along with the Conversion Price, in determining the number of new Shares to be issued to La Jolla on the conversion of the Note.

2. Rights and liabilities attaching to the Note

A summary of the key terms of the Note is set out below.

2.1 Issue Price

The Issue Price of the Note is US\$1,500,000.

2.2 Payment of the Issue Price

The payment of the Issue Price of the Note will be made by La Jolla in instalments in the manner set out in section 1.4.

2.3 Interest

Interest is payable on the Principal Amount at the rate of 4.75% per annum monthly in arrears in cash or, at the option of Clean TeQ, in new Shares issued at the then applicable Conversion Price.

2.4 Maturity Date

The maturity date of the Note is the date which is 3 years from the Issue Date (**Maturity Date**).

2.5 Security

The Note is unsecured, and the Principal Amount ranks for repayment behind all secured debts owed by Clean TeQ and equally with all other unsecured debts owed by Clean TeQ.

2.6 Conversion

La Jolla may convert the Note, either in whole or in part, by the delivery to Clean TeQ of a Conversion Notice, provided that:

- (a) any conversion must be for an amount of not less than US\$50,000; and
- (b) conversion may not occur more than once per calendar week.

The delivery of a Conversion Notice will constitute a contract between La Jolla and Clean TeQ, whereby La Jolla will be deemed (subject to the valid exercise of the Prepayment Right – refer to section 2.7) to have subscribed for the number of new Shares which it will be entitled to receive on conversion of the Note pursuant to the Conversion Notice.

2.7 Clean TeQ's Prepayment Right

If on the day La Jolla issues a Conversion Notice, the Volume Weighted Average Share Price is below \$0.315, Clean TeQ will have the right, by no later than 5 Business Days after the date of the Conversion Notice, to prepay that portion of the Principal Amount of the Note that La Jolla has sought to convert pursuant to the Conversion Notice, plus any accrued and unpaid interest, at 105% of such amount (**Prepayment Right**).

If Clean TeQ elects to exercise its Prepayment Right in these circumstances, La Jolla has the right to withdraw its Conversion Notice, in which case no payment is required to be made by Clean TeQ.

2.8 Conversion Price

The number of new Shares into which the Note may be converted is equal to the Principal Amount that is to be converted (as specified in the Conversion Notice) divided by the Conversion Price.

The Conversion Price is equal to the lesser of:

- (a) \$2.50; and
- (b) 80% of the average of the Volume Weighted Average Share Price on the last 5 Trading Days on which Shares were traded prior to the issue of a Conversion Notice.

2.9 Mandatory conversion in the 3 months prior to the Maturity Date

Clean TeQ may elect to compel La Jolla to convert the Note into new Shares. If it does so elect, in each of the 3 months prior to the Maturity Date, provided there has not been an Event of Default (refer to section 4.5), La Jolla must convert one-third of the Principal Amount of the Note remaining as at the date which is 3 months prior to the Maturity Date into new Shares.

2.10 Redemption

Unless converted, the Note will be automatically redeemed on the Maturity Date. In these circumstances, the redemption money payable in respect of the Note must be paid to La Jolla on the Maturity Date.

2.11 Reorganisation of capital and adjustment for Fundamental Corporate Change

If Clean TeQ, at any time while any Principal Amount of the Note is outstanding, reorganises its issued share capital in any way, the number of new Shares issued to La Jolla on conversion of the Note will be adjusted so that La Jolla neither receives a benefit that Shareholders do not receive nor suffers a disadvantage that the Shareholders do not suffer.

However, if a "Fundamental Corporate Change" (eg. a merger of Clean TeQ, the sale of substantially all of the assets and business of Clean TeQ, or the transfer of more than 50% of the Shares to a third party) occurs, then La Jolla will have the right to:

- (a) require Clean TeQ to prepay 120% of the Principal Amount, together with all accrued and unpaid interest;
- (b) receive the same number of securities of the successor or acquiring corporation of Clean TeQ that a Shareholder would be entitled to receive if that Shareholder held the number of Shares that the outstanding portion of the Notes may convert to at the Conversion Price applicable immediately prior to the Fundamental Corporate Change; or
- (c) require Clean TeQ, or the successor or acquiring corporation of Clean TeQ, to deliver to La Jolla a convertible note on the same terms as the Notes in an amount equal to the amount outstanding under the Notes immediately prior to the Fundamental Corporate Change.

2.12 Entitlements

The Note will not carry any entitlement to attend or vote at a general meeting of Shareholders nor any entitlement to participate in any future issues of securities by Clean TeQ.

2.13 Transferability

The Note is not transferable except for a transfer made to an affiliate of La Jolla or with the prior written consent of Clean TeQ (which it may give or withhold in its absolute discretion).

2.14 Conversion limits

Conversion of the Notes will not be required if that would cause La Jolla's (or anyone else's) voting power in Clean TeQ to increase to more than 20%.

2.15 ASX listing

The Note will not be quoted on ASX or any other securities exchange.

Under the Securities Purchase Agreement, Clean TeQ is required to apply to ASX for quotation of any new Shares issued on the conversion of the Note within 2 Trading Days of the issue of those new Shares.

3. Rights and liabilities attaching to Shares issued on the conversion of the Note

The new Shares to be issued to La Jolla on the conversion of the Note will rank equally in all respects with all of the existing Shares. The rights attaching to Shares, including the new Shares to be issued to La Jolla on the conversion of the Note, are set out in the Constitution and, in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules and the general law.

The following is a summary of the principal rights attaching to those Shares.

3.1 Voting

Every holder of Shares present in person or by proxy, attorney or representative at a meeting of Shareholders has one vote on a vote taken by a show of hands and, on a poll, one vote for every Share held by him or her.

A poll may be demanded by the chairperson of the meeting, by any 5 Shareholders present in person or by proxy, attorney or representative having the right to vote at the meeting or by any one or more Shareholders who are together entitled to not less than 5% of the total voting rights, or paid up value of the Shares, of all those Shareholders having the right to vote at that meeting.

3.2 Dividends

Dividends are payable out of Clean TeQ's profits and are declared or determined to be payable by the Directors. Dividends declared will be payable on the Shares at a fixed amount per Share.

3.3 Transfer of Shares

A Shareholder may transfer Shares by a market transfer in accordance with any computerised or electronic system established or recognised by ASX or the Corporations Act for the purpose of facilitating transfers in Shares or by an instrument in writing in a form approved by ASX or in any other usual form or in any form approved by the Directors.

The Directors may refuse to register any transfer of Shares, where permitted by the ASX Listing Rules.

3.4 Meetings and notice

Each Shareholder is entitled to receive notice of and to attend general meetings of Clean TeQ and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act or the ASX Listing Rules.

3.5 Liquidation rights

Clean TeQ has only one class of shares on issue (being ordinary shares), which all rank equally in the event of liquidation. Once all the liabilities of Clean TeQ are satisfied, a liquidator may, with the authority of a special resolution of Shareholders, divide among the Shareholders at the time the whole or any part of the remaining assets of Clean TeQ.

3.6 Issue of further Shares

The Directors may allot, issue or grant options in respect of, further Shares on such terms and conditions as they see fit. However, the Directors must act in accordance with the Corporations Act, the ASX Listing Rules and any rights for the time being attached to the Shares.

3.7 Dividend Reinvestment Plan and Bonus Share Plan

The Constitution authorises the Directors to establish and maintain dividend reinvestment plans (whereby any Shareholder may elect that dividends payable by Clean TeQ be reinvested by way of subscription for new Shares) and bonus share plans (whereby any Shareholder may elect to

forego any dividends payable on all or some of the Shares held by that Shareholder and to receive instead new Shares).

3.8 Share buy backs

Subject to the provisions of the Corporations Act and the ASX Listing Rules, Clean TeQ may buy back Shares in itself on the terms and at times to be determined by the Directors.

3.9 Non-marketable parcels

The Constitution contains procedures to enable Clean TeQ to seek to sell non-marketable parcels of Shares on behalf of Shareholders, unless the Shareholder requests otherwise.

3.10 Variation of class rights

Unless otherwise provided by the Constitution or by the terms of issue of a class of shares, the rights attaching to any class of shares may be varied, cancelled or modified:

- (a) with the written consent of members with at least 75% of the votes in that class; or
- (b) with the sanction of a special resolution passed at a separate meeting of the holders of those shares.

In either case, the holders of not less than 10% of the votes in that class of shares the rights of which have been varied, cancelled or modified, may apply to the Court to have the variation, cancellation or modification set aside.

3.11 Shareholder liability

As the new Shares to be issued on the conversion of the Note are fully paid, they are not subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

3.12 Alteration of Constitution

The Constitution can only be amended by a special resolution passed by at least 75% of Shareholders present and voting at the general meeting.

3.13 ASX Listing Rules

If and while Clean TeQ is admitted to the official list of ASX, if the ASX Listing Rules prohibit an act being done, the act must not be done despite anything in the Constitution. Nothing in the Constitution prevents an act being done that the ASX Listing Rules require to be done. If a provision of the Constitution is or becomes inconsistent with the ASX Listing Rules, the Constitution is deemed not to contain that provision to the extent of the inconsistency.

4. Summary of the key terms of the Securities Purchase Agreement

The terms of issue of the Note (and any Subsequent Notes which may be issued by Clean TeQ to La Jolla) are governed by the Securities Purchase Agreement. To the extent that the key terms of the Securities Purchase Agreement are not addressed in sections 1.1, 1.3, 1.4 and 2 above, a summary is outlined below.

4.1 Conditions precedent to the Note Issue

Under the Securities Purchase Agreement, Clean TeQ and La Jolla have agreed that, on the satisfaction of certain conditions, Clean TeQ will issue the Note to La Jolla. The conditions which are required to be satisfied include:

- (a) the lodgement of this Cleansing Statement with ASX (provided Clean TeQ is able to issue this Cleansing Statement);
- (b) any approvals required for the Note Issue having been obtained, including any approval required under ASX Listing Rule 7.1. In this regard, Clean TeQ obtained the approval of

the Shareholders to the issue of the Note to La Jolla, and the issue of new Shares to La Jolla on conversion of the Note and on payment of interest in respect of the Note, at the general meeting of Shareholders held on 7 September 2010;

- (c) Clean TeQ confirming to La Jolla that Clean TeQ's board of Directors has authorised the execution of the Securities Purchase Agreement, the Note Issue and the transactions contemplated by the Securities Purchase Agreement;
- (d) the representations and warranties made by Clean TeQ to La Jolla in the Securities Purchase Agreement are confirmed by Clean TeQ as being accurate; and
- (e) the average Volume Weighted Average Price Share for any period of 10 consecutive Trading Days during the term of the Note is not less than the Minimum Price.

At the date of this Cleansing Statement, Clean TeQ has satisfied each of the relevant conditions capable of being satisfied and will issue the Note on the date of this Cleansing Statement.

4.2 Conditions precedent to the making of Monthly Payments in respect of the Note

The obligation on La Jolla to make a Monthly Payment in respect of the Note is also subject to the satisfaction of certain conditions on or before the time the Monthly Payment is to be made. These conditions are essentially the same as the conditions that must be satisfied prior to the Note Issue, save and except that there is no condition regarding the lodgement of a cleansing statement similar to the condition referred to in section 4.1(a).

4.3 Representations and warranties made by Clean TeQ

The representations and warranties made by Clean TeQ to La Jolla in the Securities Purchase Agreement include representations and warranties as to, among other things:

- (a) Clean TeQ being able to enter into the Securities Purchase Agreement and perform all of its obligations under the Securities Purchase Agreement including the issue of the Note (and the Subsequent Notes – refer to section 4.4) to La Jolla and the issue of new Shares to La Jolla on the conversion of the Note (and the Subsequent Notes);
- (b) Clean TeQ being solvent and able to pay all of its debts as and when they fall due;
- (c) Clean TeQ not being the subject of any actual or threatened litigation that might result in any material adverse change in the business, assets or condition of Clean TeQ and its subsidiaries, taken as a whole;
- (d) there being no fact (other than general economic or industry conditions known to the public generally) that has not been fully disclosed by Clean TeQ to ASIC and ASX that reasonably could be expected to have a material adverse effect on the business, properties, prospects, condition or results of operations of Clean TeQ or materially and adversely affect the ability of Clean TeQ to perform its obligations under the Securities Purchase Agreement; and
- (e) no Event of Default has occurred and is continuing (refer to section 4.5).

4.4 The issue of Subsequent Notes

La Jolla may purchase, at its election, up to 3 additional convertible notes, each with an issue price of US\$1,500,000 (**Subsequent Notes**).

While the purchase of a Subsequent Note is at the discretion of La Jolla, and Clean TeQ cannot compel La Jolla to purchase any Subsequent Notes, under the Securities Purchase Agreement La Jolla acknowledges that its intention at the time of entering into the Securities Purchase Agreement is that it will subscribe for US\$6,000,000 in aggregate of convertible notes and, as a

consequence, La Jolla will purchase up to 3 Subsequent Notes in accordance with the terms of the Securities Purchase Agreement.

If a Subsequent Note is purchased by La Jolla, those conditions which must be satisfied before the issue of the Note and the making of the Monthly Payments in respect of the Note also apply in respect of the issue of any Subsequent Note and monthly payments in respect of a Subsequent Note.

4.5 Events of Default

If an Event of Default occurs, La Jolla may require the immediate repayment of all amounts owing or otherwise outstanding under the Note (and/or any Subsequent Notes) it has purchased. In these circumstances, Clean TeQ must pay 120% of the outstanding Principal Amount, together with all accrued and unpaid interest.

Each of the following events constitute an Event of Default if they occur and are not cured by Clean TeQ within 10 Business Days of becoming aware of the event occurring:

- (a) Clean TeQ defaults in the payment of principal of or interest on the Note (and/or any Subsequent Notes) and such default continues for 5 Business Days;
- (b) Clean TeQ fails to deliver to La Jolla either the new Shares set out in a Conversion Notice submitted by La Jolla or, if applicable, the amount of cash necessary to redeem the Note (and/or any Subsequent Notes);
- (c) Clean TeQ breaches the Securities Purchase Agreement and such breach continues for a period of 10 Business Days after the delivery to Clean TeQ of written notice that Clean TeQ is in breach;
- (d) any of the representations, warranties or covenants made by Clean TeQ are false or misleading in a material respect;
- (e) an insolvency event occurs in respect of Clean TeQ or any of its subsidiaries;
- (f) Clean TeQ fails to issue an applicable cleansing statement or disclosure document, such that La Jolla is not able to freely transfer the Shares it is issued on conversion of the Note (and/or any Subsequent Notes) without restriction or limitation on ASX;
- (g) the average Volume Weighted Average Share Price for any period of 10 consecutive Trading Days is less than the Minimum Price;
- (h) Clean TeQ ceases to be admitted to the official list of ASX or any Shares issued to La Jolla on the conversion of the Note (and/or any Subsequent Notes) are not granted official quotation by ASX;
- (i) Clean TeQ fails to timely file all reports required to be filed by it under any applicable law, rule or regulation; and
- (j) Clean TeQ defaults in the payment of principal or interest under any indebtedness, individually or in the aggregate, of more than A\$100,000.

4.6 Liquidated damages

In the event of a breach by La Jolla of the Securities Purchase Agreement, and provided that Clean TeQ is not also in breach, La Jolla will be liable to pay US\$500,000 to Clean TeQ by way of liquidated damages.

On the payment of this amount, La Jolla will have no further obligations under the Securities Purchase Agreement.

4.7 Indemnity

Clean TeQ agrees to indemnify La Jolla, its affiliates and their respective officers, directors, employees and agents from and against any and all losses, claims, damages and liabilities, and agrees to reimburse these parties for all reasonable out-of-pocket expenses, incurred by these parties to the extent arising out of or in connection with a breach by Clean TeQ of:

- (a) any of the representations and warranties made by Clean TeQ under the Securities Purchase Agreement; and
- (b) any of the obligations of Clean TeQ under the Securities Purchase Agreement.

4.8 Governing law

The Securities Purchase Agreement is governed by and interpreted in accordance with the laws of the State of California, US.

5. Additional information

5.1 Clean TeQ is a "disclosing entity"

Clean TeQ is a "disclosing entity" under the Corporations Act and, accordingly, is subject to regular reporting and disclosure obligations under both the Corporations Act and the ASX Listing Rules.

These obligations require Clean TeQ to notify ASX of information about specific events and matters as they arise. In particular, Clean TeQ has an obligation under ASX Listing Rule 3.1 and section 674 of the Corporations Act (subject to certain limited exceptions) to notify ASX immediately once it is or becomes aware of information concerning Clean TeQ that a reasonable person would expect to have a material effect on the price or value of the Shares.

Clean TeQ is also required to prepare and lodge with ASIC yearly and half-yearly financial statements accompanied by a Directors' statement and report, and an audit report or review. Copies of documents lodged with ASIC in relation to Clean TeQ may be obtained from, or inspected at, an ASIC office (refer to section 5.2).

5.2 Copies of documents

Clean TeQ will provide a copy of each of the following documents, free of charge, to any person on request:

- (a) the annual financial report most recently lodged by Clean TeQ with ASIC, being the financial report of Clean TeQ for the year ended 30 June 2010 (**2010 Financial Report**);
- (b) any half-year financial report lodged by Clean TeQ with ASIC after the lodgement of the 2010 Financial Report and before the lodgement of this Cleansing Statement with ASX; and
- (c) any continuous disclosure documents given by Clean TeQ to ASX after the lodgement of the 2010 Financial Report and before the lodgement of this Cleansing Statement with ASX.

A list of the continuous disclosure documents given by Clean TeQ to ASX after the lodgement of the 2010 Financial Report and before the lodgement of this Cleansing Statement with ASX is set out in the table below.

Date	Subject of Announcement
7 September 2010	Results of Meeting
26 August 2010	CEO Report

Glossary

2010 Financial Report means the annual financial report lodged by Clean TeQ with ASIC in respect of the year ended 30 June 2010.

A\$ means Australian dollars.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691.

ASX Listing Rules means the listing rules of ASX.

Business Day means a day other than a Saturday, Sunday or any other day on which banks located in California, US and Victoria, Australia are authorised or obligated to close.

Clean TeQ means Clean TeQ Holdings Limited ACN 127 457 916.

Cleansing Statement means this cleansing statement issued on 7 September 2010 under section 708(12C)(e) of the Corporations Act (as inserted by ASIC Class Order [CO 10/322]).

Constitution means the constitution of Clean TeQ at the date of this Cleansing Statement.

Conversion Notice means the notice by which La Jolla notifies Clean TeQ that it wishes to convert the Note, either in whole or in part, into new Shares, as outlined in section 2.6.

Conversion Price means the price at which new Shares are issued on the conversion of the relevant Principal Amount (as specified in the relevant Conversion Notice), in accordance with the formula outlined in section 2.8.

Corporations Act means the *Corporations Act 2001* (Cth).

Directors means the directors of Clean TeQ at the date of this Cleansing Statement.

Event of Default means an event outlined in section 4.5.

Fundamental Corporate Change has the meaning given to that term in section 2.11.

Initial Payment means the initial payment of US\$250,000 to be made by La Jolla on the Issue Date as part payment of the Issue Price.

Issue Date means the date of issue of the Note, being the date of, or the day following the date of, this Cleansing Statement.

Issue Price means the issue price (or face value) of the Note, being US\$1,500,000.

La Jolla means La Jolla Cove Investors Inc., a corporation registered in California, US of Suite 218, 1150 Silverado Street, La Jolla, California, US.

Maturity Date means the date which is 3 years from the Issue Date.

Minimum Price means \$0.05 per Share (as adjusted for any reorganisations of capital).

Monthly Payments means the monthly payments to be made by La Jolla towards the payment of the Issue Price in the manner outlined in section 1.4.

Note means the convertible note to be issued by Clean TeQ to La Jolla under the Securities Purchase Agreement on the Issue Date.

Note Issue means the issue of the Note to La Jolla pursuant to the Securities Purchase Agreement.

Prepayment Right means Clean TeQ's right, in certain circumstances, to prepay that portion of the Principal Amount of the Note that La Jolla has sought to convert, plus any accrued and unpaid interest, at 105% of such amount, as outlined in section 2.7.

Principal Amount means, at any time, the then outstanding principal amount of the Note, but only such amount in respect of which La Jolla has actually advanced and not furnished a Conversion Notice.

Securities Purchase Agreement means the securities purchase agreement dated 30 June 2010 between Clean TeQ and La Jolla (as amended), pursuant to which the Note (and any Subsequent Notes) will be issued to La Jolla, and to which the terms and conditions of the Note (and any Subsequent Notes) are annexed.

Share means a fully paid ordinary share in the capital of Clean TeQ.

Shareholder means a shareholder of Clean TeQ.

Subsequent Notes means up to 3 additional convertible notes which La Jolla may purchase under the Securities Purchase Agreement.

Trading Day means a day other than a Saturday, Sunday, New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day and any other day which ASX declares and publishes is not a trading day.

US means the United States of America.

US\$ means US dollars.

Volume Weighted Average Share Price means, for any date, the daily volume weighted average sale price of the Shares for such date on ASX.

Corporate directory

Company

Name	Clean TeQ Holdings Limited ACN 127 457 916
Registered office	270-280 Hammond Road, Dandenong South, Victoria 3175
Telephone	+61 3 9797 6700
Facsimile	+61 3 9706 8344
Website	www.cleanteq.com
ASX code	CLQ

Directors

Ralph Pliner – Independent Chairman

Peter Voigt – Managing Director and Chief Executive Officer

Greg Toll – Executive Director

Bob Cleary – Non Executive Director

Roger Harley – Non Executive Director

Company Secretary

Marc Lichtenstein