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Enerji Limited
435 Roberts Road
Subiaco Perth WA 6008



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Enerji Limited (ASX: ERJ) is aiming to create a new market sector in Australia - recovered energy. What is recovered energy and how does Enerji intend to pursue this opportunity?

CEO Ross Smith

Using oil, natural gas and coal to make electricity is very wasteful with more than 62 per cent of the energy burned being lost as waste heat. Heat is wasted, not just in fossil fuel burning power plants, but also at aluminum refineries, gas pipeline compressor pumping stations, factories and refineries.

According to Nobel Prize winner Dr Richard Smalley, well over 8.4 million megawatts of energy is lost annually. We have the technology to harness a very significant portion of it. This is zero pollution, zero emissions, free energy.

Enerji Limited, through CoGen ORC Power's ("CoGen") exclusive distribution agreements with Sweden's Airec and Opcon AB, have a recovered energy technology solution that we are rolling out initially in Australia. Our first recovered energy reference site is expected to be completed and operational before December 2009.

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Enerji has been involved in a variety of different businesses in the past. What assurances can be provided that the company is now settled and will have a focused approach to pursuing opportunities in recovered energy?

CEO Ross Smith

Greg Pennefather and I are both solely focused on the exciting recovered energy industry. We recently announced that Enerji has abandoned its involvement with Water Un and will focus entirely on recovered energy. Water Un was a legacy of previous Enerji management.

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Can you give some detail on the background of the management team? What is the relevant experience in terms of the recovered energy sector?

CEO Ross Smith

For over 10 years I have been developing innovative new businesses. I founded Pilbara Mines NL, now Jabiru Metals Ltd, generating significant returns for investors. Enerji's Managing Director Greg Pennefather and I introduced ADSL to Australia, in partnership with Cisco Systems, which is now the most used form of broadband in Australia.

My last business involved the building of a micro-brewery in Margaret River, the Colonial Brewing Co. 18 months after we opened in 2004 we won the prestigious Champion Small Brewery Trophy at the International Beer Awards in 2006 and the World Champion Small Brewery Trophy in 2007 along with the Champion Australian Brewery Trophy in 2007.

Greg Pennefather was the inaugural CEO of Request DSL (now part of AAPT) while I was Executive Chairman. Greg is an electrical engineer and has worked in the mining, utilities and consulting sectors for over 20 years here and in the UK. His experience in engineering and our previous working relationships make us ideal partners.

I have been researching and developing the recovered energy concept for almost 3 years since I sold Colonial Brewery. It is a concept that I arrived at independently of existing efforts in this sector. I have built a small recovered energy system on my property. I identified the Opcon AB Powerbox and Airec heat exchangers – both of which I consider to be the best of breed in recovered energy systems.

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In June you announced that Enerji had entered into a Heads of Agreement to acquire CoGen. You also stated that CoGen has secured exclusive distribution rights to both Opcon's and Airec's recovered energy technology. Can you expand on this agreement and provide more detail on the technology?

CEO Ross Smith

Enerji has entered into a Heads of Agreement that gives it an option to acquire CoGen at an agreed price in either cash or shares. The agreement also grants CoGen an option to sell to Enerji if certain agreed milestones are met. Enerji has agreed to loan CoGen up to \$1.8 million in order to implement a reference site. The loan will be secured against the assets purchased by CoGen which will include the Opcon Powerbox and Airec heat exchangers. Should CoGen not achieve the reference site milestone, the loan can be converted to equity at the

election of Enerji. We have every confidence that CoGen will achieve the milestone and we are actively pursuing this target.

CoGen has executed agreements with both Opcon and Airec that secure the exclusive distribution rights for the Opcon Powerbox and Airec heat exchangers in Australia, New Zealand and Oceania. These agreements mean that CoGen has exclusive access to, what we believe, is the best recovered energy heat equipment available.

The organic Rankine cycle (ORC) heat engine is the most efficient we have found in our extensive search – the Opcon Powerbox. We believe the Powerbox is up to 40 per cent more efficient than its closest competitor because of the unique twin-screw expander. Other ORC engines use traditional turbo expanders that are less efficient and more temperamental. As an example, if the heat available to the ORC engine falls below a critical temperature it must shut down or risk failure of its turbo expander. The Opcon Powerbox is designed to allow it to continue to operate at greater efficiency over greater temperature ranges (as low as 55C).

Airec manufacture the most efficient heat exchanger we've seen in its class. In order to recover wasted heat to drive the Powerbox, we must first capture it. The more efficiently we can do this, the greater the benefit to our customers and to the environment. Airec has developed a highly efficient asymmetric hot gas to liquid heat exchanger that is smaller, lighter and more efficient than any other we have found - 95 per cent greater thermal energy transfer over its nearest competitor at only 80 per cent (18 per cent more efficient).

Put simply, this means that Enerji can extract 18 per cent more thermal energy and produce 40 per cent more electrical power from a recovered energy source. This gives Enerji 58 per cent greater electrical output over any potential competition.

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You state that this technology has strong environmental credentials and that waste heat recovery systems reduce energy and emission costs. Can you quantify the reduction in energy costs and carbon emissions?

CEO Ross Smith

The current situation is that to generate power or energy from fossil fuels, we burn three units, use one and lose two. Enerji's goal is to recover one of the units we currently lose. Utilising our Powerbox ORC technology we convert it into valuable kilowatt energy.

The power of recovered energy is that it is freely available now to reduce greenhouse gas emissions on the technology that we already use to generate electricity. Add to that the heat wasted in many industrial processes and we have a significant source of largely untapped energy. The US Department of Energy estimated in 2006 (from its Annual Energy Survey) that the recoverable waste heat from industry was greater than all of the renewable power generated including hydro. Another way of expressing this is that the recoverable energy available from US industry equals the output of every nuclear power station in operation in the USA.

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Recovering the heat wasted in an industrial or power generation process and converting it produces power that uses no additional fuel and creates no additional emissions. We believe there will not be any environmental approval issues with the deployment of our ORC Powerboxes.

In terms of quantifying the cost and carbon savings, I illustrate them by example - a power house at a mine site generating 4MW of its own power by burning diesel fuel. In this case, Enerji believes it would be able to use one Powerbox to generate 740kWe of power. In doing so, the customer would be able to reduce the load on its generator sets to 3.26MW – a reduction of 18.5 per cent. This reduces the wear and tear on the generator sets, increasing their life and lowering maintenance costs. Typically it costs about 30¢ per kWh to generate power in this way. Enerji would charge the customer about 20¢ per kWh reducing their overall power costs by about 10 per cent or \$3 million per year in fuel. This equates to about 10.5 tonnes of CO₂ saved every year. Of course, each application of the technology is different and will result in different savings.

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What is the size of the market for application of this technology in Australia?

CEO Ross Smith

In broad terms the Australian recovered energy market consists of any business that has a process that wastes heat. Extrapolating from the US DoE figures, our estimate is 9 quadrillion BTU's (equivalent to the Melbourne Cricket Ground 45km high as a single column of oil). The most attractive aspect of this resource is that we don't have to drill or dig for it or apply for permits or licenses. We just need to harness it.

The size of the market in Australia is increasing. We have received numerous enquiries from significant emitters of waste heat - all potential clients of Enerji. Initially we estimate that there are about 600 mine sites that would benefit from the implementation of at least one Opcon Powerbox. They generate more than 2.5MW of their own power from diesel or gas and are not connected to the power grid. These sites are our prime targets.

Gas compressor stations are also prime candidates. As gas is transported along the pipelines, it gradually loses pressure and every 100km – 150km needs to be recompressed. At these facilities operators typically use gas turbines to power the compressors that perform this function. Anecdotally, we believe that about 10 per cent of the gas transmitted is used in this process. Between 5 and 10 Opcon Powerboxes could be used at some of these sites to provide on-site power and feed the remainder into the grid. Our preliminary estimate is that one eastern states gas pipeline operator has a network of 12,000 km of pipelines where there are about 300 compressor stations that would meet our criteria (being grid connected). This represents between 1,500 and 3,000 Powerboxes (1.11–2.22 Giga Watts) – many times the numbers we have in our business plan.

Other potential applications include industrial processes such as aluminium refining and smelting, cement production, pulp and paper manufacturing, coking

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coal production, abattoirs, nickel smelters, steel production, coal-fired power stations and biomass production.

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Have you entered into any agreements with prospective companies?

CEO Ross Smith

How we access our customers will be crucial. Most, if not all, of our potential customers use engineering houses to perform the design of their plant and to optimise performance. These engineering firms will be a tremendous channel to market for Enerji as they introduce their clients to the efficiencies and savings available using our technology.

We haven't entered into any agreements with potential customers at this time but we are in commercially sensitive discussions with several at the moment. These range from advanced stage negotiations over sites and engineering impact and include a number of engineering houses. As soon as we have any news on this front we will be making announcements to keep the market fully informed.

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Can you explain the Enerji business model and how it intends to deliver this technology to the marketplace?

CEO Ross Smith

Enerji's business model is to build, own and operate recovered energy power generation facilities with zero fuel and zero emissions. The goal being to increase the efficiency of our customers' process, reduce their power costs, their greenhouse gas emissions and their emissions trading scheme liabilities.

Under the build, own, operate model, we provide our customers with the engineering and equipment to recover the wasted heat and the Opcon Powerboxes to convert it into useful power – at no cost to them. We then sell them the power at discounted commercial rates by way of long-term contracts on a take or pay basis. I would like to stress that our current financial models show payback within 18 months without Renewable Energy Certificate (REC) income.

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What are the funding requirements for Enerji and how do you intend to fund this?

CEO Ross Smith

The beauty of our business is that we expend our capital on long term income-generating assets. The expenditure is very granular, meaning it is not expended before it begins to generate revenue. Whilst it will be a capital intensive business, we have strong checks and balances as to how we spend any of our capital.

This sort of business lends itself to a combination of debt and equity funding but, initially, we will raise equity to purchase our generation capacity. The exact debt to equity ratio will be determined once we have several Powerboxes operational, thereby ensuring an optimal capital structure for Enerji.

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What are your priorities for the next 3-6 months?

CEO Ross Smith

CoGen, with assistance from Enerji, has ordered its first Opcon Powerbox. It is being assembled and painted now. As announced earlier, we have witnessed part of the factory acceptance testing in Stockholm Sweden and expect delivery of the first Powerbox before the end of the year. Our main operational priority is to finalise the deployment of this Powerbox in what will be Australia's first low-grade waste heat recovered energy power station. We are also actively working on securing customers and developing relationships with engineering houses.

Our corporate priorities are twofold. First, to educate the market as to the significant potential for our business. Second, to raise the capital as and when required for our business plan.

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Thank you Ross

For further information on Enerji Limited visit www.enerji.com.au or contact Ross Smith on 08 6380 2354

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