



ABN 23 003 669 163

31 October 2018

Mr George Tharian

Advisor, Listings Compliance (Sydney)
ASX Compliance Pty Limited
20 Bridge Street
SYDNEY NSW 2000

Integrated Green Energy Solutions Limited: ASX query

Dear Mr Tharian,

Integrated Green Energy Solutions Ltd (“IGES” or “the Company”) refers to your letter dated 30 October 2018 and comments as follows (using your numbering and inserting the questions in bold):

1. When did IGES enter into the AD Agreement?

Executed on 19 February 2018 for commencement of services on 1 March 2018

2. Please outline the nature of the services agreed to be provided by AD to IGES under the AD Agreement.

Services to be provided in the China and Hong Kong region related to:

- a) Business development opportunities;
- b) Sourcing potential country partners;
- c) Assisting in the sourcing of plastic feedstock; and
- d) Assisting in sourcing offtake partners.

3. Given AD is entitled to payments from IGES, each of up to \$3,390,183 upon successful completion and operation of each of the China JV Project, the Hong Kong JV Project as well as any Future Projects, is IGES of the view that its entry into the AD Agreement is information that a reasonable person would expect to have a material effect on the price or value of its securities?

No

4. If the answer to question 3 is “no”, please advise the basis for that view.

Our consideration at the time of entering into the AD agreement in February 2018 was that the three significant key risks had not been addressed and therefore the likelihood of any payments to AD were unknown and at best remote. This rendered the agreement with AD immaterial to the share price.

The payments to AD were only potential payments of an uncertain quantum and only payable and quantified if numerous other milestones were achieved. Also, the timing of any such payments that may become due was unclear due to the milestones effective in the agreement. Ultimately, profits had to be generated at each facility before any payments were due in relation to that facility. IGES is of the view that a reasonable person would not consider

potential payments to AD at some time in the future based on projects where the probability of success is unknown as material to the price of securities of IGES.

More specifically, the payments to AD under the contract are not payable until a facility is operating at 75% of full capacity. IGES's experience in NSW and the ACT has shown that achieving environmental and planning approval can be difficult and securing a quality consistent feedstock supply may also be difficult. The AD agreement covered foreign jurisdictions where these two factors were largely unknown. As these key risks had not been overcome as at the signing of the agreement with AD, the obligation to pay the amount was remote and considered immaterial in terms of share price. Indeed, to have announced its impact would have been irresponsible and would likely have resulted in the market being wrongly informed in terms of the likelihood of success.

The three key risks of achieving a profitable facility are detailed below:

a) Regulatory risks – Planning approval

Planning approval has significant hurdles to cover, including obtaining site surveys, air quality assessments, noise assessments, water assessments, design documentation and community discussions. A successful planning application is by no means guaranteed, and issues around animal populations, community concerns or other environmental issues can stop a plant at this stage.

Specific Risk: Planning approval may not be obtained

This was considered a **high** risk at the stage of signing the AD agreement as none of the necessary surveys or assessments had been carried out. It remains a risk at the date of this letter.

b) Regulatory risks – Environmental approval

The operation of an IGES plant requires environmental approval in each jurisdiction that it operates in. Unlike planning approval that is controlled by local councils and dominated largely by economic concerns, environmental approvals are controlled by independent entities that focus on the environmental performance of the plant in relation to other facilities around it and its own emissions and performance. IGES's experience in NSW and the ACT has shown that this step is vital and very difficult to overcome. Again, community concerns can impact on this item.

Specific Risk: Environmental approval may not be obtained

This was considered a **high** risk at the stage of signing the AD agreement given our experience in the ACT. It remains a risk at the date of this letter.

c) Securing quality, consistent feedstock supply

The operation of an IGES facility requires substantial quantities of plastic waste feedstock to be sourced from external suppliers. The characteristics of the supplied feedstock affects the yield and the density of fuel produced by IGES, and the price at which the feedstock is sourced affects the economic viability of the plant.

This is a significant risk to any plant and remains a risk of AD in any potential opportunity.

Specific Risk: It is uncertain whether suitable suppliers can be sourced to supply large, consistent quality volume at appropriate prices.

This was considered a **medium** risk at the stage of signing the AD agreement. It remains a risk at the date of this letter.

Additional cumulative risks exist that must be overcome before a plant can operate profitably and a payment to AD be recognised are tabulated below. These risks are elaborated on in the prospectus released to the market prior to relisting on the ASX:

Risks	Weighting
Crude oil prices	High
Failure of technology	Low to medium
Failure to protect intellectual property rights	Low
Infringement of third-party intellectual property rights	Low to nil
Low liquidity and release from escrow risk	Low to medium
Failure to meet relevant standards in each jurisdiction	Low to medium
Management risks	Low
Change in fuel standards	Low
Technology upgrades required to remain competitive	Low
Funding risk	Medium
Property acquisition risks	Low to nil
Counterparty risk	Medium
Regulatory risk	High
Plant Construction risk	Medium
General investment risks	Low to medium

5. If the answer to question 3 is “yes”, why did IGES not make an announcement that it entered into the AD Agreement, including an outline of the key terms?

N/A

6. Is the obligation to pay AD under the AD Agreement reflected in IGES’s financial accounts (specifically, as a minimum, the two payments of \$3,390,183 payable in respect of the China JV Project and Hong Kong JV Project)?

No

7. If the answer to question 6 is “yes”, has this information been included and reflected in any of IGES’s periodic reports lodged with ASX to date? If so, please specify where this information has been included.

N/A

8. If the answer to question 6 is “no”, please advise the basis for not including this information in IGES’s periodic reports; and how IGES has treated this obligation from an accounting perspective.

Fundamentally the two amounts of \$3,390,183 amounts are not payable to AD, and they do not meet the accounting standard requirements to be reflected in the periodic reports of IGES.

To reflect the AD agreement in IGES’s financial accounts, it would need to recognise the potential payment to AD as either a liability or as a provision if it meets the criteria in the standard. Failing recognition as a liability or provision, IGES would be required to disclose the AD agreement as a contingent liability in the text of the financial accounts of IGES if it meets the criteria in the standard.

In summary, the accounting standards do not allow IGES to reflect the AD agreement in the accounts of IGES as it did not meet the criteria for recognition as a liability or a provision, nor did it meet the requirements to be disclosed as a contingent liability.

These three options to reflect the AD agreement in the financial accounts of IGES are addressed in turn below:

Liability:

Per AAB 137 para 10:

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Given the fundamental requirements that remain to be in place before a payment to AD is made, primarily that a plant is operating at 75% maximum design capacity, there was no present obligation as at the reporting date of the financial report of IGES. Therefore, a liability cannot be recognised as it does not meet the definition of a liability in AASB 137 para 10.

Provision:

Per AASB 137 para 14:

A provision shall be recognised when:

- a) an entity has a present obligation (legal or constructive) as a result of a past event;*
- b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and*
- c) a reliable estimate can be made of the amount of the obligation.*

If these conditions are not met, no provision shall be recognised.

Unlike a liability, a provision can be recognised on the basis of probabilities.

The risks required to be addressed before plant operations can begin include the three key risks explained in the answer to question 4 above: of planning approval, environmental

approval and securing quality, consistent feedstock supply. In addition, the risks tabulated in the answer to question 4 above also must be addressed. Until these risks are substantially addressed, it is not probable that an outflow of resources would be payable to AD, and therefore a provision cannot, and was not, recognised in the financial accounts of IGES.

Contingent liability:

Per AASB 137 para 27:

An entity shall not recognise a contingent liability

Also, Per AASB 137 para 28:

A contingent liability is disclosed, as required by paragraph 86, unless the possibility of an outflow of resources embodying economic benefits is remote.

While a liability or provision are recognised in the numbers of the financial accounts of an entity, a contingent liability is disclosed in the text of the financial accounts of an entity if it meets the definitions of the standards to be disclosed.

The experience of IGES in the ACT is that without planning and environmental permissions being granted by a governmental authority, the likelihood of a plant becoming operational is unknown and at best remote.

Therefore, not only are the amounts potentially payable to AD of \$3,390,183 per plant not recognisable as a liability or as a provision, they are also unable to be disclosed as a contingent liability.

9. Please outline the circumstances and performance conditions that must be satisfied under the AD Agreement that enliven and trigger IGES's obligation to make the two payments of \$3,390,183 each. Have these conditions been achieved?

These conditions have not yet been achieved and the details with respect to the creation of the obligation for payment are set out below.

Contractually, payments to AD under the terms of the AD Agreement trigger when an agreed JV facility is:

- a) Operating at 75% maximum design capacity; and
- b) Operating with a positive net profit after tax.

These two conditions have not yet been achieved.

Before these contractual conditions can be achieved, IGES would need to overcome the risks outlined in the question 4 above.

From a practical perspective, the key risks that have not yet been addressed are:

- a) obtaining planning approvals;
- b) obtaining environmental licensing; and
- c) securing consistent, quality feedstock.

Until planning approvals, environmental licensing and feedstock are secured, IGES consider any potential liability to AD as remote.

As we work through the process of obtaining approvals, securing feedstock and constructing the plant, the potential for payment to AD increases and the correct accounting standard recognition would need to be reconsidered on a continuous basis.

10. On what basis did AD agree to waive the fees owed to it, and instead receive 8 million options?

Background:

- Mr Robertson approached the managing director of IGES in August 2018 regarding a renegotiation of the AD contract.
- To the knowledge of the Company, he was and is, the sole contractor for AD and he had and has the authority to negotiate on behalf of AD. We had this view as it was Mr Robertson that negotiated the AD contract terms that was later duly signed by both parties.
- In August 2018, as referred to above, there had been no crystallisation of any fees payable, so the renegotiation was centred around the potential future cash payments due to AD over time.

Contract payment methodology:

- AD was paid only on success and in broad terms, success was defined and calculated based on the successful operation of projects by IGES for which Mr Robertson had provided sourcing and business development services. It was the agreement that after IGES had earned profits on those projects, AD would be paid an amount calculated based on those profits some years after the initial services took place.

Reasons for renegotiation: AD perspective:

- While Mr Robertson was confident that his projects would be successful, he informed IGES that he was considering retiring and as such would not be able to develop other projects beyond the initial two projects he had introduced on behalf of AD. On this basis he was very interested in bringing forward these potential payments.
- That is, Mr Robertson thought he may be forced into retirement, so he was very keen to crystallise a value of the work he had done to date and understood that it would need to be a discounted value as the conditions of payment had not been achieved.

Reasons for renegotiation: IGES perspective:

- From IGE's perspective, Mr Robertson's request to renegotiate on this matter introduced the possibility of removing a potential future cost impost. This potential cost had been conservatively factored into the forecast results for the initial years of operation and as a result, formed part of the estimated margin at a standard plant. This renegotiation therefore gave IGES the opportunity to conserve cash that could be used for other projects by issuing options as an alternative.
- Notwithstanding the abovementioned considerations regarding uncertainties of the generation of profits, IGES did make some progress on both sites early in financial year

2018/19 which improved the likelihood of achieving profitable off-shore sites in Hong Kong and China respectively.

- In particular, in the week beginning 20 August 2018, the Company sent a contingent to Hong Kong and China to progress both projects. The conclusion after these off-shore meetings and site inspections was that we had successfully progressed the projects and therefore the probability of achieving successful cash positive facilities at both sites had improved, although the Company is still to overcome the 3 key risks identified in question 4.
- These factors encouraged IGES to negotiate an early termination of the AD contract at a discounted rate to reflect the revised conditions on an arm's length commercial basis.

Market announcement not warranted:

- We did not consider the milestones achieved to be significant enough to warrant an announcement, such as the 20 June announcement regarding the completion of piling in Amsterdam, but our progress there coincided with Mr Robertson requesting a crystallisation of the amounts potentially due to him.

Renegotiation strategy and outcome:

- After the work done in Hong Kong and China in the week beginning 20 August 2018 where it was assessed by various IGES executives that there was sufficient probability of success in these jurisdictions it was deemed appropriate to enter into negotiations with Mr Robertson to factor down the amount potentially owed relating to the Hong Kong and China opportunities.
- It was determined by IGES that a fair and reasonable basis of a negotiation should be in terms of the issuance of options and not a cash payment as the conditions of success had not been achieved.
- On this basis, we proceeded with negotiations and reached an agreement. The board of directors supported conclusion of negotiations with Mr Robertson on the basis of the issuance of 8 million options at 50 cents to AD and that the transaction was subject to shareholder approval.

Basis of valuation:

- It must be noted that IGES was successful in negotiating an option exercise price that was 25% greater than the trading price around the time the negotiations were concluded and reflected a price that would be achieved only after the successful operation of at least one plant and generation of significant operating profit and cash-flow. The expiry period on the options of two and a half years was considered reasonable given that a 25% up-lift in share price was considerable. When compared to the 20 cents offer price per the prospectus for our January 2018 re-listing, the 50 cent redemption is a 150% uplift.
- A "termination agreement" was signed with AD in early October 2018 specifying, amongst other things, that shareholder approval was required before the options could be issued.

Dilution:

- The issue of dilution was considered by the Board. It was estimated that shares on issue would be between 550 million and 700 million if a 50c share price was reached, after the redemption of other options on issue. This meant the issuance of a further 8 million shares would be increasing the number of issued shares by between 1.45% and 1.1%. This was deemed as insignificant when viewed on a wholistic basis.

Conclusion:

- The IGES conclusion at the time was that it was a good outcome for shareholders as it would negate the need for a large cash outflow and rather result in an inflow of \$4 million in cash that could then be utilised for other projects. Further the options would only be converted to shares if our projects were successful.
- The result for AD was that he was able to crystallise a value of his work to date and also broaden his investment as it was now linked to shares in the parent company that had many projects underway.

11. Please confirm that IGES is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

Confirmed

12. Please confirm that IGES's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of IGES with delegated authority from the board to respond to ASX on disclosure matters.

Confirmed

Yours sincerely,



Stuart Clark
Managing Director



30 October 2018

Mr Stuart Clark

Managing Director
Integrated Green Energy Solutions LTD
Suite 202
60 Archer Street
Chatswood NSW 2067

By email

Dear Mr Clark

Integrated Green Energy Solutions Limited (“IGES”): ASX aware query

ASX Limited (“ASX”) refers to the following:

- A. IGES’s announcement entitled “IGES Enters China: Execution of Joint Venture Agreement with Publicly Listed Company – Beautiful China Holdings Company Limited” lodged on the ASX Market Announcements Platform on 18 April 2018, disclosing that IGES has executed a Joint Venture Agreement with Crown World Holdings Limited, a wholly owned subsidiary of Beautiful China Holdings Company Limited, for the establishment of a joint venture company for the construction of a waste plastics to fuel facility in Weifang, Shandong Province, China and in which IGES will hold a 51% interest (the “China JV Project”).
- B. IGES’s announcement entitled “Joint Venture Agreement: Beautiful China Holdings Company Limited” lodged on the ASX Market Announcements Platform on 23 April 2018, disclosing certain conditions precedent and funding arrangements in respect of the China JV Project.
- C. IGES’s announcement entitled “IGES strengthens its position in China: Execution of a Joint Venture Agreement in Hong Kong” lodged on the ASX Market Announcements Platform on 2 July 2018, disclosing that IGES has executed a Joint Venture Agreement with Hong Kong Telford Envirotech Group Limited to facilitate the design, construction and operation of a 200 tonne per day waste plastics to fuel facility in Hong Kong (the “Hong Kong JV Project”).
- D. Your email to ASX dated 28 October 2018, in response to a request by ASX for details regarding IGES’s proposed issue of 8 million options to Alpha Darling Pty Ltd ATF Alpha Darling Discretionary Trust (“AD”) exercisable at \$0.50 on or before 30 June 2021, pursuant to the waiver by AD of fees owed to it in connection with an agreement for the provision of services by AD to IGES (the “AD Agreement”) under which:
 - (i) two cash payments are payable to AD, each in the amount of up to \$3,390,183, in connection with AD’s introduction of IGES to and facilitation of the China JV Project and Hong Kong JV Project, subject to satisfaction of certain conditions and milestones being achieved in respect of the respective projects; and
 - (ii) up to 12 cash payments are payable to AD, each in the amount of up to \$3,390,183 in connection with the provision of future services by AD involving the introduction to IGES of a further 12 sites (upon which a facility is constructed), subject to satisfaction of certain conditions and milestones being achieved in respect of the respective sites (“Future Projects”).
- E. Listing Rule 3.1, which requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity’s securities.

20 Bridge Street
Sydney NSW 2000

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Australia Square NSW 1215

Customer service 13 12 79
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Having regard to the above, ASX asks IGES to respond separately to each of the following questions and requests for information:

1. When did IGES enter into the AD Agreement?
2. Please outline the nature of the services agreed to be provided by AD to IGES under the AD Agreement.
3. Given AD is entitled to payments from IGES, each of up to \$3,390,183 upon successful completion and operation of each of the China JV Project, the Hong Kong JV Project as well as any Future Projects, is IGES of the view that its entry into the AD Agreement is information that a reasonable person would expect to have a material effect on the price or value of its securities?
4. If the answer to question 3 is “no”, please advise the basis for that view.
5. If the answer to question 3 is “yes”, why did IGES not make an announcement that it entered into the AD Agreement, including an outline of the key terms?
6. Is the obligation to pay AD under the AD Agreement reflected in IGES’s financial accounts (specifically, as a minimum, the two payments of \$3,390,183 payable in respect of the China JV Project and Hong Kong JV Project)?
7. If the answer to question 6 is “yes”, has this information been included and reflected in any of IGES’s periodic reports lodged with ASX to date? If so, please specify where this information has been included.
8. If the answer to question 6 is “no”, please advise the basis for not including this information in IGES’s periodic reports; and how IGES has treated this obligation from an accounting perspective.
9. Please outline the circumstances and performance conditions that must be satisfied under the AD Agreement that enliven and trigger IGES’s obligation to make the two payments of \$3,390,183 each. Have these conditions been achieved?
10. On what basis did AD agree to waive the fees owed to it, and instead receive 8 million options?
11. Please confirm that IGES is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.
12. Please confirm that IGES’s responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of IGES with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than 9.30 a.m AEDT on 1 November 2018.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by email. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to IGE’s obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

It should be noted that IGE's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, providing the information requested in this letter.

Further, if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, IGE’s obligation is to disclose the information “immediately”. This may require the information to be disclosed before the deadline set out in this letter.

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely

[Sent electronically without signature]

George Tharian

Adviser, Listings Compliance (Sydney)