Shareholder Update – India Project

19 November 2018: Environmental Clean Technologies Limited (ASX: ECT) (ECT or Company) is pleased to advise that the board of NLC India Limited (NLCIL) has approved the Research Collaboration Agreement (RCA) for the Company's India project.

Key points:

- NLCIL board approval received
- NMDC Limited (NMDC) board approval expected to follow shortly
- Parties expect to present to Ministry of Coal and Ministry of Steel
- Request to lift Voluntary Suspension

The Company recently entered Voluntary Suspension (13 November 2018), following an earlier Trading Halt (9 November 2018), pending the outcome of board meetings by its India project partners to consider approving the signing of the RCA.

NLCIL held its board meeting as scheduled Wednesday (14 November 2018), and have confirmed that their board has provided the anticipated approvals subject to the approval of project partner NMDC and engagement with government ministries

Status of NMDC Board Approval

NMDC held their board meeting on 13 November 2018, however, consideration of the RCA approval was deferred due to the unexpected absence of the Director sponsoring the project. ECT is currently in discussion with NMDC to confirm whether the proposal may proceed via a circular resolution or an additional board meeting this month. This process is not expected to result in material delays as NMDC have previously provided in-principle approval subject to NLCIL board approval, which is now in hand. Further updates on NMDC board approval will be provided in due course.

Engagement with Indian Government

Once NMDC have formalised their approval to sign the RCA, ECT, NLCIL and NMDC are expected to present a project briefing to key Indian government stakeholders including Ministry of Coal and Ministry of Steel officials. This briefing process is aimed at bringing all stakeholders up to date with the project and is a necessary process to facilitate preparation and co-ordination of the signing ceremony and subsequent execution of administrative requirements through to 'financial close'.

ECT COO Jim Blackburn commented, "We're delighted to have achieved the first of the necessary board approvals and look forward a positive outcome from NMDC shortly. We are equally pleased with the opportunity to engage with Indian government ministries together with our strategic partners NLCIL and NMDC."

"It's important to understand that the recently completed external legal review and amendments to the RCA conducted over the past several months were extremely thorough, reflecting the importance and status of what we understand will be the largest ever research collaboration project between India and Australia.

"Given the scope of India's challenging ambition of simultaneously lifting steelmaking capacity by 165 million tonnes per year while reducing emissions intensity by 35% by 2030, technologies such as those developed within this project will necessarily play a major part in coming decades.

"We believe our technologies are uniquely positioned to help our partners deliver on this ambition through the utilisation of cheaper, abundant, alternative raw materials at lower emissions intensity than the traditional blast furnace route.

"And while our project will commence with a research phase, upon successful completion we will progress to commercial roll out, initially in India, then targeting global opportunities.

"This status has attracted the attention and interest from the highest levels of Indian government and we look forward to the opportunity for engaging with the Ministry of Coal and Ministry of Steel ahead in due course."

The parties previously anticipated clearing board approvals and hold the signing ceremony before the end of November, however based on feedback from NLCIL and NMDC the signing ceremony will now occur after the end of November, at a date to be confirmed. An extension to the project agreement (MOU) was previously executed (see announcement 15 August 2018) to allow time for the parties to complete their processes. A further extension is being arranged to ensure the project agreement remains on-foot in the lead up to the RCA signing ceremony.

Further updates on timing of the above activities will be provided as details are confirmed.

Summary of Commercial Terms

The following summary of commercial terms outlines the key elements of the RCA:

- The project will be undertaken on the basis of a research and development collaboration (R&D collaboration) through an unincorporated association and governed by the terms of the RCA

- The participating interests in the R&D collaboration are in the following proportions:
  - NLCIL: 25.5%
  - NMDC: 25.5%
  - ECT: 49%

- A special purpose vehicle (SPV) will be established by the parties upon:
  - the earlier of:
    a) Final Project Completion, as defined in the RCA; or
    b) any registrable project intellectual property (IP) being generated through the course of the project; or
  - as mutually agreed between the parties

- The equity shareholdings of the SPV will be in the proportion of:
  - 25.5% NLCIL
  - 25.5% NMDC
  - 49% ECT

- Upon the establishment of the SPV, all project IP and assets will be transferred and assigned to the SPV, and the SPV will become a party to the RCA.

- Each party's contribution will be as follows:
  - NLCIL:

    - Fund 50% of the estimated capital expenditure (~INR75 Crore or ~AUD15M)
    - Fund 25.5% of operating expenditure (~INR6.9 Crore or ~AUD1.4M)
    - Total estimated NLCIL contribution to CAPEX & OPEX: (~INR81.9 Crore or ~AUD16.4M)
    - Fund 25.5% of any additional budget (CAPEX & OPEX, above the budget approved by the Project Control Committee (PCC))
  - NMDC
    - Fund 50% of the estimated capital expenditure (~INR75 Crore or ~AUD15M)
    - Fund 25.5% of operating expenditure (~INR6.9 Crore or ~AUD1.4M)
    - Total estimated NMDC contribution to CAPEX & OPEX: (~INR81.9 Crore ~AUD16.4M)
    - Fund 25.5% of any additional budget (CAPEX & OPEX, above the budget approved by the PCC)
  - ECT:
    - Fund 49% of the estimated operating expenditure (~INR13.2 Crore or ~AUD2.6M)
      - Subject to the following conditions:
        - ECT will retain the right to license its pre-existing Coldry IP, in Australia
        - Formation of the PCC where time is of the essence
        - Conclusion and board approvals of the RCA before 30 November
    - Fund 49% of any additional budget (CAPEX & OPEX, above the budget approved by the PCC)
    - Project bond to be issued in favour of NLCIL and NMDC:
      - The bond will be in the amount of ~AUD3.5M or 10% of the PCC approved capital budget, whichever is the higher amount.
      - The bond will be in the form of either:
        - A bank guarantee; or
        - Such other suitable financial instrument as agreed between the parties.
    - Master Technology License:
      - ECT will issue an exclusive royalty-free global licence, to the Research Collaboration solely for the purpose of the Pilot Plant as part of the R&D phase
      - The licence will transition to a commercial license and be assigned to the SPV upon its creation
      - Any future use of the Combined IP (that is, pre-existing IP together with any new project IP) will require a licence to be issued by the SPV and will be royalty bearing under the Global Royalty Share Structure
      - All income generated by the R&D collaboration or subsequent SPV, will be distributed in proportion to each party's shareholding in the project SPV and in accordance with the dividend policy of the SPV
      - Pre-existing IP – remains owned wholly by ECT
      - Project IP – owned by the R&D collaboration/SPV
      - New IP (in the future) – owned in proportion to funding contributions
    - Commercial Technology License (Australia):
      - ECT will retain the right to license its pre-existing Coldry IP, in Australia
      - All royalty income generated during the R&D Phase, and under the subsequent SPV License to ECT, will be distributed in proportion to each party's shareholding in the project SPV

- Project Control Committee (PCC):
  - to be established as soon as practicable after signing of the RCA
  - Representation will be as follows:

- NLCIL – 2 representatives
- NMDC – 2 representatives
- ECT – 3 representatives

Of interest to shareholders will be the quantification of responsibilities regarding project expenditure, specifically:

- ECT contribution of 49% of operating expenditure, and
- Establishment of a project bond.

To date, the value of the project has been described in terms of its overall budget, estimated at ~AUD35M, excluding taxes. This budget has two components:

- Capital expenditure – estimated at AUD30M
- Operating expenditure – estimated at AUD5M

Through the Basic Engineering Design process, completed in September, these estimates have continued to be refined. In regard to operating expenditure, this accounts for the period following construction, during which the plant will enter a period of commissioning and experimental trials. The operational cost of these trials is budgeted at ~AUD5.4M.

As noted above, ECT will contribute 49%, or ~AUD2.6M of this operational expenditure.

Further, ECT has agreed to the inclusion of a project bond instrument. The purpose of the bond will be to align ECT's financial commitment to the project alongside the CAPEX funding provided by NCLIL and NMDC. ECT will be required to provide a bond in favour of the research collaboration which will only be redeemable in the event that ECT is unable to meet its obligations under the RCA prior to commissioning.

The changes have been made in light of the final review process and the identification of risk mitigation mechanisms should project overruns occur or should ECT 'walk away' from the project during construction. The Company is confident in the potential of its Coldry and Matmor technologies and in the capability of its team to deliver the desired outcomes and as such have welcomed these appropriate contingent cost sharing and cost overrun provisions.

The Company looks forward to maintaining the recent progress toward 'financial close' and will continue to provide updates on the way through.

The Company requests the current Voluntary Suspension be lifted, effective immediately.

For further information, contact:

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About ECT

ECT is in the business of commercialising leading-edge energy and resource technologies, which are capable of delivering financial and environmental benefits.

We are focused on advancing a portfolio of technologies, which have significant market potential globally.

ECT's business plan is to pragmatically commercialise these technologies and secure sustainable, profitable income streams through licensing and other commercial mechanisms.

About Coldry

When applied to lignite and some sub-bituminous coals, the Coldry beneficiation process produces a black coal equivalent (BCE) in the form of pellets. Coldry pellets have equal or superior energy value to many black coals and produce lower CO_2 emissions than raw lignite.

About Matmor

The Matmor process has the potential to revolutionise primary iron making.

Matmor is a simple, low cost, low emission production technology, utilising the patented MATMOR retort, which enables the use of cheaper feedstocks to produce primary iron.

About the India R&D Project

The India project is aimed at advancing the Company's Coldry and Matmor technologies to demonstration and pilot scale, respectively, on the path to commercial deployment.

ECT has partnered with NLC India Limited and NMDC Limited to jointly fund and execute the project.

NLC India Limited is India's national lignite authority, largest lignite miner and largest lignite-based electricity generator.

NMDC Limited is India's national iron ore authority.

Areas covered in this announcement:

ECT (ASX:ECT)	ECT Finance	ECT India	India Project	Aust. Project	R&D	HVTF	Business Develop.	Sales