# Equity Lending Facility Loan Repayment Incentive

**18 February 2019:** Environmental Clean Technologies (ECT or Company) (ASX:ECT) is pleased to provide the following information regarding an Equity Lending Facility loan repayment incentive program.

**Key points:**

- Equity Lending Facility (ELF) loan repayment incentive program initiated
- Non-dilutive and open to all ELF loan holders
- Funds to support ECT CY2019 budget key initiatives and projects

Consistent with the ASX announcement on 13 February 2019, the Company is pleased to announce the initiation of a campaign to incentivise loan repayments of the July 2017 ELF loans, to meet the Company's working capital requirements, in line with its budgeted key initiatives and projects.

**ECT Capital Management Program – CY2019**

As part of its first half (calendar year) 2019 capital management program, ECT has implemented two key initiatives in support of its ongoing finance program for the year.

Firstly, the Company recently announced the structure of the ECT project bond strategy (13 February 2019), which delivers a flexible solution to ECT's financial bond obligations for its India project whilst mitigating the impact of equity dilution.

In addition, ECT and its subsidiary ECT Finance (ECTF) have now put in place an ELF loan repayment incentive program to assist the Company to deliver on its key initiatives and projects.

The proceeds of the ELF incentive program will be utilised as follows:

- **Latrobe Valley project – project feasibility and engineering design program**
  On the 28 November 2018 ECT announced commencement of the feasibility study for the design and construction of a Coldry commercial demonstration plant in Latrobe Valley. Over the past 12 weeks, the ECT engineering team has completed a review of the basis of design (originated with engineering firm Arup in 2015) and commenced preparations for the detailed second stage site assessment and detailed engineering design program.

- **Bacchus Marsh – High Volume Test Facility – stage 3 upgrades**
  ECT has committed to a series of capital upgrades at Bacchus Marsh over the past two years and currently proposes a 3rd phase upgrade program to progressively meet the targeted 15,000 tonnes per annum (TPA) and 30,000 TPA capacity objectives. These targets will be met with the additional support of coal terminal upgrades at Yallourn (in partnership with Energy Australia) and once achieved will deliver increased capacity to the development of Coldry domestic solid fuel markets.

- **Coldry – domestic solid fuels market development program**
  As a central part of the commercialisation of the Coldry technology, and in parallel to the Latrobe Valley and India projects, ECT has been developing and implementing its domestic solid fuel market development program over the past 18 months. With the completion of an extensive commercial

trial program and delivery of its first 'steam package' client in Victoria, this program will now expand to target additional projects in both Victoria and Tasmania.

- **Yallourn coal supply upgrades**
  Commensurate with the planned increased capacity at its Bacchus Marsh high volume test facility, and in support of the domestic market program above, ECT, together with its strategic partner Energy Australia, has identified the opportunity for increased efficiency at the Yallourn site coal terminal, from which ECT currently receives it raw coal supply. Upgrades at the site would include conveyor infrastructure, bunkering upgrades, and improved handling and logistics management. These are necessary to facilitate increased output from the existing terminal.

- **Working capital requirements and debt repayment**
  As ECT moves into the implementation phase of its India and Latrobe Valley projects, and in parallel with additional capital upgrade and commercialisation activities outlined above, the resource base for core operations will inherently need to expand. Additional working capital provisions have been budgeted for the 2019 calendar year, which support significant expansion in scope and scale of the Company's activities. Commensurate with this are our current debt obligations including the Brevet loan facility (secured against the R&D tax incentive rebate accrual) and repayment of the ELF securitisation loan (outlined in the Company's announcement on 7 December 2018).

The projects outlined above will be the subject of detailed ASX releases over the coming weeks.

The Company announced the structure of its bond strategy on 13 February, which delivers a flexible solution for the Indian project bond that manages the impact of equity dilution. Similarly, the Company has sought to minimise the impact of equity dilution with regard to raising working capital.

**ELF loan repayment incentive program**

**What is the ELF?**

In July 2017, ECT established an ELF via its wholly-owned subsidiary, ECT Finance Limited (ECTF), to support the exercise of expiring options, creating a loan book with a present value of ~$16.0 million.

**The incentive offer**

To meet ECT's funding requirements in support of the expanded project and commercialisation activities (outlined above) the Company has authorised ECTF to implement an ELF incentive campaign offering the following to loan holders, on a pro-rata basis:

- **Incentive offer:**
  - **The aim:** The incentive offer seeks to incentivise up to $3.5M in total loan repayments;
  - **The 'incentive':** A 30% discount on up to one-third of ELF loan balances (as at 31 January 2019), available to all ELF borrowers and applied to each separate ELF loan. The initial 30% discount opens 18 February 2018 and closes 5 pm (AEST) on 1 March 2019. From 2 March 2019 the discount reduces to 17% and closes at 5 pm (AEST) 15 March 2019;
  - ELF borrowers may elect to apply for less than their full allocation and there is no minimum repayment requirement;
  - ECTF reserves the right to close the offer early and will provide notification via email to all ELF borrowers accordingly.

- **Oversubscriptions:**
    - ELF borrowers may apply for more than their pro-rata allocation via an oversubscription application on the same terms as the incentive offer;
    - Oversubscriptions will be allocated on a ‘first in’ basis. That is, allocations will be fulfilled in the order in which applications are received by ECT.
    - Any ELF Borrowers that have elected to take up the oversubscription will be required to remit payment for the oversubscription within the same timeframes as the payment for their incentive offer (i.e. to receive the 30% discount on any oversubscription application, payment is to be remitted by 5pm AEST on 1 March 2019. Payments received on any oversubscription application from 2 March to 5pm AEST on 15 March 2019 will receive the 17% discount);
    - Any oversubscription amounts remitted to ECT Finance, and subsequently not allocated in full (e.g. due to high demand), will be refunded within 3 business days after the close of the incentive offer period;
    - Any ELF borrowers that have elected to take up the oversubscription will only be contacted with the final amount available for oversubscription if their application is not accepted in full;
    - Oversubscription applications will be confirmed no later than 20 March 2019.

ELF borrowers should expect to receive email correspondence on 18 February 2019.

All standard features of the ELF continue to apply, including:

- Stock as security to the ELF will only be released from trading block upon full repayment of the loan (i.e. if the 33% standard offer is taken up and a loan balance remains unpaid, then all the stock remains locked);
- The standard interest rate discounts apply to loans repaid under the ELF incentive program.

**Why an incentive program?**

The ELF loan book is a non-dilutive source of capital, making it preferable to traditional dilutive capital raising; however, the repayment of ELF loans is highly dependent on the prevailing share price, which in turn is influenced by the progress of the Company’s major projects and commercialisation activities.

ECT Chairman, Glenn Fozard commented, “We don’t expect loan repayments to occur organically before the effect of entering the project execution phase in India has been reflected in the share price.

“As such, the incentive is intended to encourage repayments as the Company expects to transition from project preparation, through financial close, to project execution.”

**Offer example**

Borrower has an ELF loan balance of $10,000 as at 31 January 2019, including accrued interest and fees.

- **Eligible loan amount**: the amount eligible for the discount would be ~$3,333 ($10,000 x 1/3)
- **Discount**: the discount would be ~$3,333 x 30% = ~$1,000
- **Payment**: the borrower would be required to pay ~$2,333
- **New loan balance**: the new loan balance would be ~$6,667.

Depending on the terms of the loan, the borrower may also benefit by having reduced their loan-to-security ratio (LSR), which in turn reduces their ongoing interest rate. Reducing the LSR may also eliminate management fees.

The borrower's ELF loan balance would be reduced but none of the borrower's shares, secured under the ELF facility, would be released to the borrower.

A list of 'Frequently Asked Questions' and example scenarios will be posted on the ECT Finance website (www.ectfinance.com.au).

Compliance requirements for ECT and ECTF directors, officers and staff:

- **Prohibition on ECT directors and officers participating in the ELF incentive program**
  This position is formed on the basis that it is not currently possible to avoid or mitigate the direct conflict between directors and officers who currently have a position within the ELF program and the development, analysis and decision making involved in implementation of the program itself. Under the continuous disclosure requirements, ECT has made material information in regard to its major activities available to the public via ASX announcement. However, as and when new price sensitive information becomes known, it may be that ECT directors and officers are exposed to this information (more consistently and readily than others) which may influence their decisions to participate (or not) in the ELF incentive program.

- **Allowance for ECTF directors and officers to participate in the program**
  This position is formed on the basis that two of the three directors (each holding ELFs) abstained from the resolution to make a recommendation to ECT board to approve the program. Furthermore, in their roles as directors of ECTF, these individuals are not likely to currently be exposed to price sensitive information which may influence their decisions to participate (or not) in the ELF incentive program. Furthermore, ECTF directors who do participate in the program, and through over subscriptions fully repay their loans (and therefore take possession of the stock) would then be subject to normal staff trading policy requirements on transacting on that stock. The Company is aware that one ECTF director intends to participate in the incentive program.

- **Allowance for ECT staff to participate in the program**
  This position is formed on the basis that staff did not participate in the decision to implement the incentive (either at ECT or ECTF level). Further, they are not likely to currently be exposed to price sensitive information which may influence their decisions to participate in the ELF incentive program. Furthermore, staff who do participate in the program, and through over subscriptions fully repay their loans (and therefore take possession of the stock), would then be subject to normal staff trading policy requirements on transacting on that stock. The Company has been advised that some staff intend to participate in the incentive program and that all necessary compliance checks will be completed prior to the staff member applying for the offer.

**The following table outlines the ELF loans attributable to staff:**

| Staff/director* | Original options | Total ELF loan balance | Participation |
|---|---|---|---|
| Glenn Fozard | 0.9c | $428,703 | Prohibited |
| Ashley Moore | 0.9c and 1.5c | $339,249 | Permitted |
| Adam Giles | 0.9c and 1.5c | $676,111 | Permitted |

*Balances include related entities of the staff member or director

**For further information, contact:**

ECT Finance at *info@ectfinance.com.au*

### 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:**

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