



Shareholder Update – India Project

Project Bond Strategy

13 February 2019: Environmental Clean Technologies (ECT or Company) (ASX:ECT) is pleased to provide the following update regarding the progress of activities required to finalise its obligations under the Research Collaboration Agreement (RCA) for its India project, ahead of financial close and project commencement.

Key points:

- Project bond proposal finalised
- No separate capital raising required
- Flexible bond structure that manages dilution concerns

ECT is pleased to announce the planned establishment of a flexible bond structure for its India project, with the completion of the bond structure, appointment of the intermediary and allocation of security backing the guarantee to be completed within the coming days.

Background

ECT is poised to advance its two leading technologies, Coldry and Matmor, to the next stage of development on the commercialisation pathway, via the largest ever research and development (R&D) collaboration between Australia and India.

Commencing with an ~AUD35 million R&D phase, ECT's project partners, NLC India Limited (NLCIL) and NMDC Limited (NMDC) will each contribute half of the capital cost, being ~AUD30 million (~AUD15 million each), plus 51% of the operating cost, being ~AUD2.55 million (~AUD1.275 million each).

In addition to the intellectual property, ECT is required to provide a bond to the value of 10% of the project, being ~AUD3.5 million, and contribute 49% of the project-specific operational funding, being ~AUD2.45 million, in addition to leadership of the project engineering and management.

Project bond

The bond is surety for ECT's delivery of services and project-specific operational funding essential to the completion of the project through to commissioning.

Under the RCA, which ECT expects will be finalised soon, ECT will be required to provide a bond (the "project bond") in favour of the Project Control Committee, which will only be redeemable if ECT is unable or unwilling to meet its obligations under the RCA prior to commissioning.

The project bond is required to be in the form of either a bank guarantee, government bond, cash, stock (ECT Shares) or combination of these options as mutually agreed between the parties.

Key to structuring the project bond is the need to balance the obligations under the RCA, the desire of the Company and shareholders to avoid dilution, and maintaining access to a range of potential bond mechanisms during project execution.

To this end, ECT has developed a flexible bond structure that allows for the establishment and dynamic management of its bond obligation via any or all of the abovementioned bond mechanisms, while avoiding the need to raise capital.

Timing

The bond is required to be established before the signing of Engineering, Procurement & Construction (EPC) contracts.

After signing of the RCA and financial close (targeted for 31 March 2019), the project management team will finalise the tender development program, leading to selection of an EPC contractor and the signing of contracts, targeted for the period between July and September this year.

How the project bond works

The project bond, in the form of a flexible, equity-backed guarantee (EBG) will be established via the issue of 350 million fully paid ordinary shares (ASX:ECT), to an intermediary, at a face value of AUD3.5 million (the “equity-backed guarantee”). The shares will be issued via a limited recourse equity lending facility (ELF) loan issued from ECT Finance (ECTF) to the intermediary, equivalent to the face value of the bond.

The EBG will have the flexibility of being progressively transferable into other agreed forms of security, including bank guarantees, government bonds and cash. Any security that remains with the intermediary once the obligations of the project bond conclude will be returned to ECTF as part of settling the ELF loan. To the extent the bond contains ECT shares at the conclusion of the obligation, those shares may be returned to ECTF and subsequently ECT via a selective buy-back and then cancelled.

Further details outlining the bond structure will be announced following its establishment.

Achieving stakeholder balance

ECT COO Jim Blackburn commented, “The establishment of the EBG and the issuing of stock as security enables timely progress towards meeting all conditions-precedent of the RCA and setting the structure to meet our financial obligations through the capital phase. Our project partners understand that, for a company of our relatively small size, locking up cash into an instrument like this is challenging, and a more appropriate method of establishing financial commitment is initially via equity, with stock held as security against our future obligations, and the flexibility to adjust the composition of the bond as the project advances.”

ECT Chairman, Glenn Fozard added, “As our shareholders understand, the operational requirement to balance the need to finance our business and projects with cash, whilst minimising the impact of dilution, can be challenging.

“Establishing the project bond is one such challenge where the initial allocation of cash against this guarantee would be difficult, without dilution, at a time when the share price is yet to reflect the potential effect of our India project in its execution phase.

“As a result, we’ve addressed this challenge by establishing the initial bond via equity, which enables us to advance to the execution stage of the project, allowing us to take advantage of any changes in share price and cash availability, delivered through mechanisms such as the ELF program or government bond programs, on the way through.

“We believe this flexible, equity-backed guarantee, strikes the ideal balance for our shareholders and project partners. We will be talking to our project partners as we proceed towards the commencement of the capital phase, to agree upon the appropriate security mix and how this can be managed across the different stages of the project.”

Working capital obligations

Similar to the bond strategy, the Company has structured its working capital strategy to avoid the need for capital raising.

The Company looks forward to providing an update on its working capital strategy in the coming days.

Update – pathway to signing and financial close

Further to the Company’s recent update (5 February 2019), which provided an overview of the next steps through to financial close, ECT is pleased to confirm the RCA is being finalised by its partners and is expected to be ‘frozen’ shortly.

Coldry-Matmor Intergrated Project - India

Pathway to project signing and financial close

ACTIVITY	February	Mar	Target
Research Collaboration Agreement (RCA)	RCA 'Frozen': Confirmation by each partners legal advisers of "frozen" status		Financial Close
RCA - Signing		Target signing window: Flexible timing to allow for ECT, NLC and NMDC board availability	
ECT Obligations	Finalise all actions required to allow ECT to meet all undertakings as outlined in the final RCA, inclusive of the Project Bond, Working Capital and nominations for the PCC		
NLC Obligations		Establishment of: Project Management Team Project bank accounts Approved project budget	
NMDC Obligations			
Project Control Committee (PCC)		Formation of PCC	
		Confirm all obligations have been met to in accordance with the RCA	

‘Freezing’ an agreement is a common term used in India which means no further changes can be made and it is ready to proceed to signing. The Company understands that the ‘frozen’ document will be put to the Board of NMDC for approval at its next meeting.

As detailed above, ECT’s obligation to establish the bond prior to EPC contracts being issued is well ahead of schedule, on track to be completed during February.

The strategy to underpin working capital obligations has also been finalised, via a program to be announced shortly.

The Company looks forward to providing further progress updates as it works toward signing of the RCA, financial close and commencement of the project.

New project resources

As ECT prepares for project execution there two personnel changes to announce.

Lachlan Bartsch has tendered his resignation and will be departing ECT in the coming weeks. Lachlan is moving on to a contract role in Argentina where he will be leading a commissioning team for a new processing plant. Lachlan has been with ECT for nearly 3 years and has been a significant contributor to the research and development activities at Bacchus Marsh, and the engineering development program in India. ECT thanks Lachlan for his valuable efforts over this time and wishes him well in his new role.

Further, ECT is pleased to announce the appointment of its Chief General Manager (Project Engineering), Rashmikant Bodiwala.

Chief General Manager (CGM) Project Engineering – Rashmikant Bodiwala

Rashmikant is a graduate of Mechanical Engineering from SVREC University (now, National Institute of Technology) in Surat, India. He also holds professional certifications in project management.

Currently Rashmikant holds the position of Design Manager with Meinhardt EPCM (India) and will commence with ECT on finalisation of his notice period. Prior to this role, he has held project engineering roles at Qatar Fertiliser Company, SPIE Oil & Gas Services and Essar Group.

Through these roles Rashmikant has gained valuable project engineering experience, including:

- End to end project definition, execution and delivery in a range of industries and environments
- Multi-disciplinary design team management
- Front end engineering package development, design reviews through to on-site progress inspection and construction approval works
- Technical proposal evaluation and bid selection
- Contractor and sub-contractor management
- Front line safety management in challenging environments

Rashmikant has been appointed to the role of Chief General Manager – Project Engineering for ECT, joining the senior leadership team for the ECT India project. In this role, his key responsibilities will include tender development and finalisation, EPC contractor selection, design management and construction management. Rashmikant will also play a key role in commissioning, as well as managing the identification and capture of all intellectual property developed in the project engineering and execution phases to maximise the project value for the Company.

ECT Chief Operating Officer Jim Blackburn commented “We are delighted to welcome Rashmikant to the ECT team. His initial assignment will be to immerse himself with ECT here in Australia to complete his induction, including detailed exposure to the technologies we develop, and the operations at our high volume test facility in Bacchus Marsh. He will then return to our team in India and commence work on the project.”

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 CO₂ 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
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