ENVIRONMENTAL CLEAN TECHNOLOGIES LIMITED

# Capital Management Update

**Friday 03 March, 2017:** Environmental Clean Technologies Limited (ASX: ESI) (ECT or Company) is pleased to provide the following update on its Capital Management Plan as a result of recent positive outcomes across several initiatives.

This further update to shareholders provides an overview of the Company's financing plans as they relate to both the India project and working capital and covers:

- India Project Finance
- Working Capital Finance
- "ECT Finance" - Corporate Entity

## Indian Project Finance

In late December, the Company announced the signing of a term sheet with Brevet for a AU$10M facility which contained certain conditions precedent: a) approval of the AusIndustry overseas ruling for the India project and b) confirmation of the Indian partners' contribution to the project.

On the 22nd of February, the Company announced the approval of its application for an Advance Finding and Overseas Ruling in relation to Coldry which, when applied to the current Indian project budget pertaining to Coldry, has an estimated cash value of AU$10M in future tax incentive refunds (see 2016/17 Half Year Financial Statements released 28th of Feb).

The Company is currently proceeding with the application for an Advance Finding and Overseas Ruling in relation to the Matmor component of the India project which, if approved by AusIndustry, will have an estimated additional value of up to AU$5M in future tax incentive refunds. Based on our domestic eligibility for Matmor activity and our experience with the successful outcome of the Coldry Overseas Ruling, the Company is confident that the Matmor project is compliant with the R&D Tax Incentive legislation, providing a reasonable expectation of another successful outcome.

Given that the Coldry ruling alone provides for ~85% of ECT's contribution to the India project, the Company is satisfied that it has established a clear pathway to financing its Indian project following the anticipated signing of the Master Project Agreement (MPA) with NLC India Limited and NMDC Limited.

Executive Chairman, Glenn Fozard stated, "The Federal Government's AusIndustry rulings would allow us to fund our Indian project contribution entirely with non-dilutive debt, minimising reliance on a facilitated Options Exercise Program and other associated capital raising measures."

"The structure of the MPA was carefully composed to ensure we met the requirements of Federal Government funding under the R&D Tax Incentive legislation, with this feature being a significant influence on the time taken to develop the agreement."

**Working Capital Finance**

*Equity Lending Facility (ELF)*

The Company recently announced (20 Feb 2017) it is in the process of establishing an Equity Lending Facility to be offered to all ESIOA and ESIOB option holders to finance the conversion of their options into Fully Paid Ordinary Shares.

Since that update, the Company has refined the proposed features of the Equity Lending Facility, including:

- The Company will offer all ESIOA and ESIOB option holders a loan to convert their options into fully paid ordinary shares
- Lending approvals are not restricted by lending or leverage ratios, although a minimum loan size of $1,000 will apply
- The term of the loan will be for three years
- There will be defined early pre-payment points along the term (likely half yearly, i.e. 5 pre-payment points before expiry of the loan term)
- An interest rate will be charged across the loan period and will be determined by two factors:
    - Loan to Strike Ratio (LSR) – the more cash contributed in taking the loan up, the lower the interest rate
    - Interest Payment terms – pre-paid interest will receive a lower interest rate, whereas quarterly capitalised interest payments will receive a higher interest rate
- Interest rates will be benchmarked against standard margin lending rates in the market
- The borrower will have no exposure to margin calls but the secured shares will be held in a locked custodian account for the period of the loan and the use of these shares for any other purpose will be prohibited
- The loan recourse will be limited to the shares held as security
- At expiry of the facility, any remaining loan balance will need to be paid out as cash, otherwise the loan will be due and payable and a buy-back of the stock sought by shareholders at the next available GM, inclusive of additional interest, facility fees and buy-back costs.

The Company is in the process of preparing the necessary documents and finalising appropriate advice to support a Notice of Meeting for an Extraordinary General Meeting (EGM) of Shareholders, anticipated to be held in May. The Company will release further information on the details of the offer, at least 28 days before the scheduled EGM. The Equity Lending Facility will proceed subject to approval by Shareholders at the EGM.

It should be noted that Option holders who have available funds can exercise their options at any time. To date the Company has raised approximately $3.4 million from the exercise of ESIOA and ESIOB Options.

At present, the Company is targeting a 20% conversion rate of the ESIOA and ESIOB options to provide sufficient working capital for the next 18 months to 2 years.

*Equity First Holdings (EFH)*

In late December, the Company announced the EFH facility which incentivised early exercise of ESIOA options through the payment of the borrower's interest to eligible option holders (the "EFH Incentive").

An initial tranche of 25 million units was taken up under this facility.

Given the prevailing stock price levels being under 2c per share over most of the subsequent period, the Company has exercised its discretion in not incentivising the take-up of any further tranches.

With the further positive developments as noted above, the Company has determined it is unnecessary to incentivise further take-up as it evaluates the costs of the various capital programs, the rate of direct options conversions occurring and the anticipated release of the ELF program.

While ECT has ceased the EFH incentive, eligible option holders are still able to take up the EFH facility directly with EFH, bearing the interest costs personally.

**ECT Finance – Corporate Entity**

The Company is in the process of setting up a wholly owned subsidiary, 'ECT Finance' to support the growing needs of the parent company's corporate and project finance initiatives. The purpose of this company is to manage general finance and lending initiatives including:

- Coldry Solid Fuel Sales – Customer Equipment Finance
- Corporate Working Capital Finance (R&D loans etc)
- Coldry and Matmor Project Finance
- Equity Lending Facility
- New technology acquisition

Further updates will be provided to the market on the Capital Management Plan, including further progress on the Matmor overseas ruling, the ELF and the finalisation of the MPA.

**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 licencing 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 have 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.