

March 2018

New research reveals that Coal Energy Australia (CEA), the remaining recipient of \$30 million of public funding from the Advanced Lignite Development Program, has made no progress towards breaking ground on this Latrobe Valley project and is in financial crisis.

Key facts:

1. CEA has racked up cumulative losses each of the four years it has reported to ASIC, reaching a **deficiency of \$8.9 million** in June 2016, up from \$800,888 the year before.
2. CEA was originally meant to achieve its first funding milestone in April 2015, but instead has been granted **three extensions from the government**, the latest of which is due to expire in April 2018.
3. CEA can't access ALDP funding until it has made substantial progress with plans and financing of its proposed plant. **It has yet to even submit a works approval to Victoria's Environment Protection Authority.**
4. CEA's besieged directors have come and gone. Last year, a **founding director resigned** the day after the company's auditor issued a heavily qualified report.
5. CEA appears to be walking away from its original plans, and has made news lately by announcing plans to re-open and repurpose the Morwell EnergyBrix briquette factory.
6. The public money locked up in this failed project would be enough to provide genuine economic benefits to the Latrobe Valley, such as retrofitting energy efficiency upgrades and solar installations to over 6000 homes under the Latrobe Valley Home Energy Upgrades Program.

About Coal Energy Australia: CEA is the last of three companies selected to be funded under the State/Commonwealth Advanced Lignite Development Program (ALDP). In May 2014 CEA was offered \$30 million for the construction of a \$143 million demonstration plant designed to produce fertiliser, oil and coal used in steelmaking. It has yet to obtain basic environmental approvals, let alone break ground on this project.

Coal Energy Australia has indicated that phase 1 of the project will produce 200,000 tonnes of CO₂ per year. It was suggested that phase 2 could emit as much as 2.2 million tonnes of CO₂, equating to approximately 2 percent of Victoria's annual CO₂ emissions.¹

1. Financial problems

According to the most recent publicly available financial statement (for the year to June 30, 2016) Coal Energy Australia is in a precarious financial position. Note: the annual return for the year to the end of June 2017 is not due to be filed with ASIC until August or September 2018.

On August 31, 2017 the CEA's auditor, Scott Bennison noted that as of the end of the 2015-16 financial year the company:

"Has a net deficiency in assets of \$8,919,704. This financial condition indicates the existence of a material uncertainty which may cast significant doubt about the consolidate entity's ability to continue as a going concern and, therefore, whether it will realise its assets and

¹ This information has since been removed from CEA's website. See screenshots in appendix.

March 2018

extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.”²

In each of the four years CEA has issued financial statements, they have made a financial loss. Based on the latest publicly available data filed with ASIC, CEA has racked up a cumulative loss of \$8.9 million to June 2016, up from \$800,888 the year before.³

Since raising \$701,765 in 2012-13 from the sale of shares shortly after the company was formed, CEA has raised no additional funding through shares or – according to the latest publicly available annual return – any loans.⁴

The financial statement for June 30, 2016 notes that CEA has total trade creditors and “other current liabilities” of \$14,665,436, up from \$1.264 million the year before. There is no breakdown on the creditors.

As of June 30, 2015 CEA had just \$39,041 in cash reserves.⁵

2. Extensions from government

In 2017 a spokesperson for the Department of Economic Development, Jobs, Transport and Resources confirmed that:

“In January 2017, CEA requested a further extension due to the Commonwealth's review of its R&D Tax Incentive Program. A one year extension to the project was approved in April 2017 on the basis that it would put the project in a better position to achieve the objectives of the ALDP. No funds have been paid to the company at this stage.”⁶

This extension is due to expire in April 2018, unless a further extension has been granted.

The proponent funding agreement signed by Coal Energy Australia gives the government a right to terminate the agreement following a delay of more than 6 months.⁷

Timeline of extensions	Date granted	Deadline to meet first milestone
Initial contract signed ⁸	28 April 2014	24 April 2015
Contract amended ⁹	2015 (exact date redacted)	30 May 2016
First extension (6 months) ¹⁰	July 2016	January 2017
Second extension (1 year) ¹¹	January 2017	April 2018

² Australian Securities & Investment Commission, Copy of Financial Statements and Report, 2015-16

³ Ibid.

⁴ Ibid

⁵ Ibid

⁶ Email from DEDJTR

⁷ Proponent Funding Agreement, c 22

⁸ Proponent Funding Agreement

⁹ Deed of Variation

¹⁰ <http://www.theage.com.au/victoria/brown-coal-scheme-designed-to-save-latrobe-valley-in-disarray-20161003-grtrao.html>

¹¹ Email from DEDJTR

March 2018

Despite multiple extensions, CEA is still a long way from achieving its financial milestones. The first milestone requires CEA to acquire all of its environmental, planning, access and safety approvals and to have completed its design processes.

Letters and emails from Victoria's Environment Protection Authority confirm that it requires a full works approval for CEA's project. As of March 2018, CEA has so far failed to submit a Works Approval application.

3. Tax claims

In July 2016 the Victorian Government's Resources Minister, Wade Noonan, told *The Age* that CEA had been granted a six-month extension to meet milestones in its funding agreement with the Department of Economic Development, Jobs, Transport and Resources because the company was waiting for a ruling (presumably from the ATO) on the company's eligibility for "significant tax offsets".¹²

Records filed with ASIC reveal the company booked \$6,487,619 in the year to June 30, 2016 as its tax refund from the federal government's Research and Development incentive scheme. (CEA had booked a \$510,790 tax credit in 2014-15 financial year and smaller amounts in the preceding years.)

The R & D incentive scheme allows a 43.5% refundable tax offset for eligible entities with an aggregated turnover of less than \$20 million per annum.¹³ A company can self-assess or seek a binding ruling prior to making a claim. The ATO also makes clear that the incentive is to apply only to actual R&D expenditure.

Without the R&D refund, CEA's financial position would be dire.

4. Directors come and go:

ASIC records reveal that since 2015 CEA has appointed two new directors both of which resigned within months and lost a founding director following a scathing financial audit.

- 4.1. On June 10, 2016 Darrel John Causbrook was appointed as a Director of the company. On September 1, 2016 he resigned. Causbrook is the principal of the Causbrook & Associates, a firm of chartered accountants which lists working with start-ups as one of its specific areas. Causbrook & Associates has had an association with CEA from its early days. The firm is the registered agent of CEA and its Company Secretary turned director, Nick Tropea, is also a Senior Associate in Causbrook & Associates.
- 4.2. Lisa Fu, one of the founding directors of CEA, resigned on September 1, 2017 - the day after an auditor had signed off on a heavily qualified report on August 31. On the same day that Fu resigned, Nick Tropea - who was Company Secretary - was also appointed as Director. On

¹² <http://www.theage.com.au/victoria/brown-coal-scheme-designed-to-save-latrobe-valley-in-disarray-20161003-grtrao.html>

¹³ <https://www.ato.gov.au/Business/Research-and-development-tax-incentive/About-the-program/>

March 2018

September 8, 2017, a week after Fu resigned, Causbrook was reappointed as a director of the company.

Contact details: Level 10, 32 Martin Place, Sydney, NSW 2000, + 61 2 8222 6100. (CEA list Level 10, 32 Martin Place in CEA annual reports as its principal place of business, presumably the offices of Causbrook & Associates.

5. CarbonTech project at EnergyBrix:

Recently CEA has been in the news pitching its plans to establish a CarbonTech Project at the EnergyBrix site in Morwell.¹⁴ While little information is available about the project at this stage, CEA claims they intend to pair old drying and briquetting infrastructure with new coal pyrolysis technology and renewable energy to produce carbon products such as briquettes, low volatile char and activated carbon.¹⁵

This appears to be evidence the CEA is walking away from the project for which they received funding under the Advanced Lignite Demonstration Program (originally intended to be sited adjacent to the Yallourn power station). It is unclear what the motivation for re-locating to the EnergyBrix site is. There is a \$27 million closure fund which is required to be used only on site remediation.¹⁶

6. Funding should be cancelled and put towards projects of actual benefit to the Latrobe Valley

The public money locked up in this failed coal project could be spent on more viable projects capable of diversifying the Latrobe Valley economy.

For example the \$30 million promised to CEA would be able to:

- Provide energy efficiency upgrades and solar installations for over 6,000 homes if it were reassigned to the Latrobe Valley Home Energy Upgrades Program.¹⁷
- Support 3,000 workers through the LVA's Back to Work Scheme¹⁸
- Contribute to a Latrobe Valley specific carve out of the Victorian Renewable Energy Target auction program.
- Extend the operation of the Latrobe Valley Authority to ensure continuity of support and funding as the region continues to transition away from coal power.

Coal Energy Australia has reached the point where the "three strikes and you're out" principle needs to be invoked. For five years, it has failed to deliver on its commitments, creating more false hope that there is any future in processing coal.

CEA has breached the terms of its contract with state government, and it is time for the government to cancel the agreement and put the money to better use in the Latrobe Valley.

¹⁴ <http://www.latrobevalleyexpress.com.au/story/5258219/innovative-solar-hope/>

¹⁵ Presentation by general manager Roland Davies <<https://www.bcinnovation.com.au/copy-of-ctp-seminar>>

¹⁶ <http://www.latrobevalleyexpress.com.au/story/2485752/cash-deed-to-prevent-briquette-bomb-site/>

¹⁷ <https://lva.vic.gov.au/latrobe-valley-home-energy-upgrade/>

¹⁸ <https://lva.vic.gov.au/back-work-scheme/>

March 2018

Appendix.

Screenshots taken from Coal Energy Australia's website in 2015:

Beneficiating Victoria's vast brown coal resources

Our plant will use proven, proprietary technology to beneficiate high moisture, low rank coal from Latrobe Valley mines into export grade, high value add products.

Coal beneficiation removes moisture from brown coal and increases its carbon concentration. Our technology involves a low pressure, low energy pyrolysis process. It is a thermochemical decomposition of organic material in the absence of oxygen, involving the simultaneous change of chemical composition and physical phase. Our process will produce four products:

Prime PCI Coal

Pulverised coal injection (PCI) is a method for improving the performance of blast furnaces and reducing costs in the steel making process. Our process creates a low volatile solid fuel (LVSF) with a very high carbon content and very low level of impurities.

Pyrolysis oil

Pyrolysis oil can be distilled into many products, including light oil, phenol oil, bitumen, naphthalene, diesel oil, and oil for industrial heating.

Ammonium sulphate

Ammonium sulphate can be sold domestically as a fertiliser and soil conditioner. It is in high demand on Australia's eastern seaboard states.

Coal gas

Coal gas will be used for heating in the pyrolysis process. The high hydrogen content of the coal gas results in very low CO₂ emissions when combusted.

The Latrobe Valley Project

- **Phase 1** will have the capacity to process 2Mtpa of brown coal
- **Phase 2** capacity will be 22Mtpa, including Phase 1

What level of carbon emissions will be generated?

The process uses the syn-gas produced from the coal. It is high in hydrogen (almost 50%) and low in CO₂. The emissions of CO₂ are around 0.1 tonnes of CO₂ per tonne of raw coal. This is about 10% of the emissions of current uses (per tonne raw coal).

PCI coal also reduces emissions from steelmaking: there is less CO₂ when there is no need to make coke from coking coal.