



# ENERGY WORLD CORPORATION LTD.

9A Seaforth Crescent,  
Seaforth NSW 2092, Australia.

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20 November 2020

Ms. Isabella Wong  
Adviser, Listing Compliance (Sydney)  
ASX Limited  
20 Bridge Street,  
Sydney NSW 2000

Dear Ms. Wong,

## **Energy World Corporation Ltd. (“EWC”): Queries regarding Accounts**

Dear Ms. Wong,

We are pleased to reply to your letter Reference: 27330 dated 11 November 2020 and to provide the following responses to the questions in your letter:

### Question 1(a)(i)

The Directors satisfied themselves that the carrying values for the EWC assets under construction adhere to the current Australian Accounting Standards conducting impairment testing the Group. The recoverable amounts of the assets under construction were determined based on value in use calculations using cash flow projections from financial budgets approved by the directors and extrapolated for the useful lives of the assets. As a result of the analysis, management did not identify an impairment for these assets under construction.

### **Key assumptions used in the value in use calculations**

The calculation of value in use for projects under construction is most sensitive to the following assumptions:

- LNG, feedstock gas and electricity prices – this has been derived from available supply and demand in the market, signed agreements, expected agreements currently under negotiation and external market pricing reports.
- Demand for LNG and power generation and availability of feedstock gas – based on forecast capacity, market demand and offtake discussions with various parties.
- Discount rates – a post – tax range between 7% - 16.5%
- Inflation rates – a long term inflation rate of 1.5% - 5.25% based on an Oxford Economics Report applicable to the particular intended operating jurisdiction.
- Useful lives of the assets – based on design, external reviews by third party engineering firms, and other recently completed similar facilities.
- Commencement of operations – start times assumed to be in the second half of 2021 or 2022.

All the models demonstrate headroom with no requirement for impairment.

The information is reported in the Full Year Accounts page 98/99.

#### REGISTERED OFFICE ADDRESS

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#### Question 1(a)(ii)

The Directors satisfied themselves that the carrying values for the EWC exploration and evaluation assets adhere to the current Australian Accounting Standards from the information available to them. The Directors were provided an update on the assets primarily relating to the Sengkang Gas Field and a copy of the PSC 20 year extension to October 2042 signed with SKKMigas in the prior period of our accounts. There have been no indications that the recoverable reserves are less than what was previously determined by external reserves engineers, as recorded in the Full Year Accounts issued on 30<sup>th</sup> September 2020, page 22 references made to the Gaffney, Cline and Associates (GCA) report.

The Auditors reported to the Management, Directors and Audit Committee that they have not identified any indicators of impairment with respect to those oil and gas assets.

For the Australian Petroleum Leases (PL's) the company has been working with the Queensland Department of Natural Resources, Mines and Energy (DRME) to extend permits PL 115, PL 116 and transfer permit PL 117 to September 2026 and further application approvals for PL 1030, PL 1031, PL 1032 and PL 1033 which is taking more time due to the impact of the COVID pandemic on normal working arrangements and a change in Government Ministers. The Directors and the Auditor have been provided a discounted cash flow model in respect of restarting the Australian Gas Fields to support the carrying value of the Australian E & E assets.

#### Question 1(b)(i)

The Auditor provided the following position to management on the impairment assessments for the asset under construction.

The Auditors position as advised to Management, Directors and the Audit Committee is the valuation of these assets for the impairment testing is inherently complex and highly judgmental. This is a result of the fact that the projects are:

- a. Pioneering and lack directly comparable assets;
- b. Midway through construction and;
- c. Being constructed in developing countries (with the exception of Gilmore LNG).

The Auditor further advises that, given the lack of external evidence to support or contradict managements assumption, consistent with the 30 June 2019 audit, they are unable to form a view on the recoverability of these assets and this is why they have included a qualification within their audit report.

#### Question 1(b)(ii)

The Auditor raised concerns over the length of time DRME has held the PL's 1030 to 1033 inclusive and the lack of budgeted expenditure to further explore and evaluate the Group's Australian E & E assets. The company position is once these permits have been secured and extended, then the intention is to seek additional funds to fully develop these assets and to implement the projects.

#### Question 1(c)(i)

The information provided to the auditor regarding EWC's assumption in its impairment assessment for assets under construction were:

The recoverable amounts of the assets under construction were determined based on value in use calculations using cash flow projections from financial budgets approved by the directors and extrapolated for the useful lives of the assets. As a result of the analysis, management did not identify an impairment for these assets under construction.

## Key assumptions used in value in use calculations

The calculation of value in use for projects under construction is most sensitive to the following assumptions:

- LNG, feedstock gas and electricity prices – this has been derived from available supply and demand in the market, signed agreements, expected agreements currently under negotiation and external market pricing reports.
- Demand for LNG and power generation and availability of feedstock gas – based on forecast capacity, market demand and offtake discussions with various parties.
- Discount rates – a post – tax range between 7% - 16.5%
- Inflation rates – a long term inflation rate of 1.5% - 5.25% based on an Oxford Economics Report applicable to the particular intended operating jurisdiction.
- Useful lives of the assets – based on design, external reviews by third party engineering firms, and other recently completed similar facilities.
- Commencement of operations – start times assumed to be in the second half of 2021 or 2022.

### Question 1(c)(ii)

The information provided to the Auditor regarding EWC's assumption in its impairment assessments for its exploration and evaluation assets was:

- (a) Copy of Gaffney Cline and Associates Report (GCA Report) as referenced page 22 of the full year accounts
- (b) Copy of the Sengkang PSC Extension Document

The Auditors reported to the Management, Directors and Audit Committee that they have not identified any indicators of impairment with respect to those oil and gas assets.

For the Australian Petroleum Leases (PL's) the company has been working with the Queensland Department of Natural Resources, Mines and Energy (DRME) to extend permits PL 115, PL 116 and transfer permit PL 117 to September 2026 and further application approvals for PL 1030, PL 1031, PL 1032 and PL 1033 which is taking more time due to the impact of the COVID pandemic on normal working arrangements and a change in Government Ministers. The Directors and the Auditor have been provided a discounted cash flow model in respect of restarting the Australian Gas Fields to support the carrying value of the Australian E & E assets. The Auditors were also provided with all the company correspondence between the company and DRME.

### Question 2

#### Going Concern

EWC considers that its financial condition is sufficient to warrant the continued quotations of its securities and its continued listing on ASX under Listing Rule 12.2; the reasons for this are as previously stated on page 63 of our Full Year Accounts – “Going Concern” Statement:

As at 30 June 2020 the Group's consolidated statement of financial position shows a net current liability position of \$117.6 million. The net current liability indicates a material uncertainty regarding the Group's ability to continue as a going concern. Outlined below are the key factors the Directors have considered when assessing the ability of the Group to continue as a going concern.

The net current liability figure referred to above is inclusive of the full carrying amount (\$52.66 million) of the EEES interest bearing liability. This liability was required to be classified as a current liability at 30 June 2020 as a result of the Group having been in breach of conditions of the loan at that date. These conditions were met or agreed to be waived by the lender in September 2020 and accordingly, the

Group does not expect to be required to settle the full liability within the next financial year. The Group also continues to progress other sources of new funding to complete the projects under development and to provide working capital to the Company.

The Directors are confident EWC will secure the required levels of funding at the appropriate times to successfully progress and complete the projects and that EWI and Slipform will continue to support the Company as required.

On this basis, the Directors are of the opinion that the Group can continue as a going concern and therefore realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not therefore include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

#### Question 3

EWC will continue to strive to secure an unqualified audit opinion in relation to its future financial statements, we are currently evaluating the options available to us to achieve this objective and once Management have decided upon an appropriate course to do this shareholders will be advised.

#### Question 4

For the Full Year Accounts the Board did receive the CFO and CEO declaration, as described in Recommendation 4.2

#### Question 5

EWC Board regularly contact Management to satisfy itself that the financial records of EWC have been properly maintained and the financial statements comply with the appropriate accounting records and give a true and fair view of the financial position and performance of EWC. The Board members are completely free to examine the financial records of EWC to ensure they are properly maintained and the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and preference of EWC. The Board members can also contact the Auditors anytime, in their individual capacities or as members of the Audit Committee.

#### Question 6

EWC corporate governance, risk management and internal control procedures are detailed within the full year accounts report issued on 30<sup>th</sup> September 2020 pages 47 to 57 - Corporate Government Statement. The Executive Management meet on a regular basis, and discussions are held with Directors as required. 4 Audit Committees are held per annum and all parties have access to the Auditors at anytime.

#### Question 7

- (a) The rationale for the guidance for the full year (FY2020) revenue and gross profit included in the half year account was the prognosis / assumption that our operating businesses in Indonesia would continue to produce a similar revenue and gross profit to these of the first half year.
- (b) During the second half of the year the power demand from the Sengkang grid was lower than originally foreseen (estimated) due to the impact of the COVID pandemic however to forecast the actual demand a number of factors need to be considered:
  - (i) The impact of the pandemic on demand
  - (ii) The availability of other power units on the Sengkang grid on supply

(iii) The offtake agreements (Power Purchase Agreements and their specific conditions)

Under these circumstances, at any point during the period, the situation may change and it was in our reasonable opinion not necessary to issue any revised or amended forecasts. There have not been any material changes to our business operations and activities, we have been able to provide full services to meet our minimum contract (PPA) obligations; and the offtaker of the power has also adhered to meet its minimum contract (PPA) obligations. We have not had the opportunity in the period to supply additional power under the contract due to the demand / supply scenario as mentioned above.

The quarterly Appendix 4C reports released to the market contain information on the quarterly receipts from customers (revenue) and other relevant information.

Question 8

We confirm that EWC is complying with the Listing Rules and in particular, Listing Rule 3.1.

Question 9

The responses from EWC to the questions raised by ASX in their letter Reference: 27330 dated 11 November 2020 have been authorised and approved under its published continuous disclosure policy and its Board and an officer of EWC has been granted the delegated authority from the Board to respond to ASX on these disclosure matters.

Yours sincerely,  
For and on behalf of  
ENERGY WORLD CORPORATION LTD.



Graham Elliott  
Company Secretary

Authorised by the Board



11 November 2020

Reference: 27330

Mr Graham Elliott  
Company Secretary  
Energy World Corporation Ltd  
9A Seaforth Crescent  
Seaforth NSW 2092

By email

Dear Mr Elliott

**Energy World Corporation Ltd ('EWC'): Queries regarding Accounts**

ASX Limited ('ASX') refers to the following:

- A. EWC's half yearly report and accounts for the six months ended 31 December 2019 ('Half Year Accounts'), released on the ASX Market Announcements Platform ('MAP') on 2 March 2020, which included the following statements (emphasis added):
- (i) On page 6: *'Revenue for the consolidated group for the six months period was \$86.9 million which extrapolates to \$173.8 million for the full year, a 16.5% increase from the revenue in FY19 of \$149.2M.*
  - (ii) On page 7: *'Gross profit for the consolidated group for the six month period was \$51.8 million. Extrapolated to \$103.6 million for a full year.*
- B. EWC's Annual Report for the financial year ended 30 June 2020 ('FY2020'), released on MAP on 1 October 2020, which incorporated the following:
- (i) EWC's audited financial report for FY2020 ('Full Year Accounts'), which disclosed:
    - Sales revenue of US\$159,245,000.
    - Gross profit of US\$95,129,000.
    - Assets under construction of US\$1,318 million which comprised US\$561.3 million applicable to the Sengkang LNG plant development, US\$515.6 million applicable to the Philippines Power project, US\$194.0 million applicable to the Philippines LNG project, and US\$47.7 million applicable to other projects (see Note 18 - Property, plant and equipment).
    - The following statements regarding impairment testing of assets under construction (on pages 98-99):

*'The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 30 June 2020, the market capitalisation of the Group was below the book value of its equity, indicating a potential impairment of the assets under construction ...*

*The recoverable amounts of the assets under construction were determined based on value in use calculations using cash flow projections from financial budgets approved by the directors and extrapolated for the useful lives of the assets. As a result of the analysis, management did not identify an impairment for these CGUs.*

### **Key assumptions used in value in use calculations**

The calculation of value in use for projects under construction is most sensitive to the following assumptions:

- LNG, feedstock gas and electricity prices – this has been derived from available supply and demand in the market, signed agreements, expected agreements currently under negotiation and external market pricing reports.
- Demand for LNG and power generation and availability of feedstock gas – based on forecast capacity, market demand and offtake discussions with various parties.
- Discount rates – a post – tax range between 7% - 16.5%
- Inflation rates – a long term inflation rate of 1.5% - 5.25% based on an Oxford Economics Report applicable to the particular intended operating jurisdiction.
- Useful lives of the assets – based on design, external reviews by third party engineering firms, and other recently completed similar facilities.
- Commencement of operations – start times assumed to be in the second half of 2021 or 2022.'

(ii) The Directors' Declaration (on page 132), which stated:

*'In the opinion of the directors:*

(a) *the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:*

(i) *giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date; and*

(ii) *complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations Act 2001; ...'*

(iii) The Independent Auditor's Report attached to the Full Year Accounts ('Auditor's Report'), which contains:

- A qualified opinion together with the following basis for the qualified opinion:

*'Note 17 of the financial report refers to the Group's exploration and evaluation assets at 30 June 2020 carried at US\$84.7 million. The Directors have performed assessments to determine the recoverable amounts of the exploration and evaluation assets and used the assessments to support the carrying amount of these assets in the consolidated statement of financial position as at 30 June 2020. We were unable to obtain sufficient appropriate audit evidence to support certain assumptions used by the Directors in their impairment assessments at 30 June 2020 because we have not been able to obtain reliable external evidence that would enable us to form a view regarding the appropriateness of the assumptions used in respect of developing and subsequently operating these assets for the purposes of the value in use impairment tests that were performed. Consequently, we were unable to determine whether any adjustments to the amounts recorded in exploration and evaluation assets are necessary.*

*Note 18 of the financial report refers to the Group's assets under construction at 30 June 2020 carried at US\$1,318 million. The Directors have performed assessments to determine the recoverable amounts of each of its assets under construction and used the assessments to support the carrying amount of these assets in the statement of financial*

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*position as at 30 June 2020. We were unable to obtain sufficient appropriate audit evidence to support certain assumptions used by the Directors in their impairment assessments at 30 June 2020 because we have not been able to obtain reliable external evidence that would enable us to form a view regarding the appropriateness of the assumptions used in respect of completing the construction of and subsequently operating each of these assets for the purposes of the respective value in use impairment tests that were performed. Consequently, we were unable to determine whether any adjustments to the amounts recorded in assets under construction are necessary.'*

- A material uncertainty related to going concern paragraph.

- (iv) EWC's Corporate Governance Statement for FY2020, which provides confirmation that EWC complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations ('Recommendation 4.2'), which states:

*'The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.'*

- C. EWC's Appendix 4C for the quarter ended 30 September 2020, released on MAP on 30 October 2020, which included the following question (in bold) and answer (in item 8.6):

***'Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?'***

*The entity has not, and does not propose to take any steps to raise further cash to fund its operations.'*

- D. Listing Rule 12.2, which states:

*'An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.'*

- E. Listing Rule 19.11A, which states:

*'If a listing rule requires an entity to give ASX accounts, the following rules apply.'*

- (a) If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the accounts must be consolidated accounts.*
- (b) The accounts must be prepared to Australian accounting standards ...*
- (c) If the listing rule requires audited accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor ...'*

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## Questions and Request for information

Having regard to the above, ASX asks EWC to respond separately to each of the following questions and requests for information:

1. ASX notes that the auditor was unable to obtain sufficient appropriate audit evidence to support certain assumptions used by EWC in its impairment assessments at 30 June 2020 to determine the recoverable amounts for each of its assets under construction and its exploration and evaluation assets and, in turn, support the carrying values of these assets.

In light of the above:

- (a) Please explain how the directors satisfied themselves that the carrying values for the following assets are appropriate and adhere to the current Australian accounting standards:

- (i) each of EWC's assets under construction; and
- (ii) EWC's exploration and evaluation assets.

In answering (i) and (ii) above, reference should be made to the underlying assumptions used by the directors in reaching these conclusions, as well as any independent valuations and the validity of the assumptions upon which these valuations are based.

- (b) Please elaborate on the reasons why the auditor was unable to obtain sufficient appropriate audit evidence regarding EWC's use of certain assumptions in its impairment assessments for:

- (i) each of its assets under construction; and
- (ii) its exploration and evaluation assets.

Your response should note the relevant assumptions which led to the qualified opinion.

- (c) What evidence was provided to the auditor regarding EWC's assumptions in its impairment assessments for:

- (i) each of its assets under construction; and
- (ii) its exploration and evaluation assets.

2. ASX notes that the Auditor's Report contains a material uncertainty relating to going concern paragraph (see sub-paragraph B(iii) above), and that EWC does not intend to raise further capital (see paragraph C above).

In light of the above, does EWC consider that its financial condition is sufficient to warrant the continued quotation of its securities and its continued listing on ASX under Listing Rule 12.2? In answering this question, please explain the basis for EWC's conclusion.

If the answer to this question is 'no', please explain what steps EWC has taken, or proposes to take, to warrant continued quotation of its securities and continued listing on ASX under Listing Rule 12.2.

3. What steps, if any, does EWC intend to take to obtain an unqualified audit opinion in relation to its future financial statements?

4. In relation to the Full Year Accounts, did the Board receive the CFO and CEO declaration, as described in Recommendation 4.2 (see sub-paragraph B(iv) above)?

If the answer this question is 'no', why did the Board not receive the CEO and CFO declaration as described in Recommendation 4.2?

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5. What enquiries did EWC's Board make of management to satisfy itself that the financial records of EWC have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of EWC?
  6. Commenting specifically on the auditor's qualified opinion, does the Board consider that EWC has a sound system of risk management and internal control which is operating effectively? In answering this question, please explain the basis for EWC's conclusion.
  7. ASX notes that:
    - The Half Year Accounts included guidance in relation full year (FY2020) revenue and gross profit, which appears to be based on a doubling of the revenue and gross profit reported in the Half Year Accounts (see paragraph A above).
    - EWC's revenue and gross profit for FY2020 were both approximately 8% lower than the guidance provided in the Half Year Accounts (see sub-paragraph B(i) above).

In light of the above:

- (a) Please explain EWC's rationale for the methodology it utilised to formulate guidance for FY2020, namely the doubling of revenue and gross profit figures reported in the Half Year Accounts.
  - (b) When did EWC first become aware that it would not achieve the revenue and/or gross profit guidance provided in the Half Year Accounts?
  - (c) If EWC first became aware that it would not meet the revenue and/or gross profit guidance provided in the Half Year Accounts prior to 1 October 2020, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe EWC was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps EWC took to ensure that the information was released promptly and without delay.
8. Please confirm that EWC is complying with the Listing Rules and, in particular, Listing Rule 3.1.
  9. Please confirm that EWC's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of EWC with delegated authority from the board to respond to ASX on disclosure matters.

#### **When and where to send your response**

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9:30am AEDT on Wednesday, 18 November 2020**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, EWC's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require EWC to request a trading halt immediately.

Your response should be sent to me by e-mail. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

#### **Trading halt**

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in EWC's securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- 
- the reasons for the trading halt;
  - how long you want the trading halt to last;
  - the event you expect to happen that will end the trading halt;
  - that you are not aware of any reason why the trading halt should not be granted; and
  - any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

### **Suspension**

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in EWC's securities under Listing Rule 17.3.

### **Listing Rules 3.1 and 3.1A**

In responding to this letter, you should have regard to EWC's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that EWC's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

### **Release of correspondence with ASX**

We reserve the right to release a copy of this letter, your reply and any other related correspondence between us to the market under Listing Rule 18.7A.

### **Questions**

If you have any questions in relation to the above, please do not hesitate to contact me.

Yours sincerely

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**Isabella Wong**  
Adviser, Listings Compliance (Sydney)