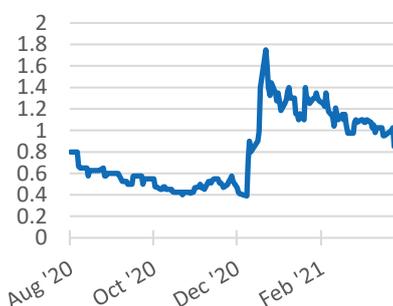


9 April 2021

Stock Data

Ticker (AIM)	AEG LN
Share Price	0.85p
Market Cap	£33.2M
EV	£49.2M
Yr High/Yr Low	1.95/0.38p
USD/GBP 30d avg	1.4/1

Price Chart



SOURCE: Bloomberg

Special Sits Research

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Spec Sits Research

Active Energy Group Plc

Lumberton CoalSwitch™ Plant on Track

Active Energy Group PLC (AEG LN) listed on the AIM Market of the LSE is a renewable energy & forestry management company focused on the production of biomass fuels using its proprietary CoalSwitch™ technology as part of a portfolio of products.

- Reference plant construction is progressing on track:** AEG's twitter feed is constantly updated with construction progress in Lumberton, NC. Management was also on a webcast with London South East (lse.co.uk) earlier this week and confirmed that all is on track for Q221 CoalSwitch™ biomass delivery. This includes construction completion in the coming weeks, commissioning and then production of CoalSwitch™ to meet the June timeline to fulfil the PacifiCorp offtake agreement. Some new site photos are included on the next page provided by AEG.
- Licensing agreement declared void by RMDE in Canada:** An Open Letter was issued by Grand Chief Derrickson of RMD Environmental (RMDE) on 7 April 2021, indicating the licensing agreement signed with AEG on 28 November 2019 has been declared 'null and void' by RMDE and a refund of the license fee demanded in a letter to the Board. While it is not for us to pass judgement on the contents of the Open Letter, we suggest there are formal legal avenues to follow as standard practice, that would likely be more appropriate for RMDE to pursue in this case. As such, this behaviour does raise questions of motive, given the significant operational progress made by AEG in the past ~24 months and given the expected achievement of a key commercial milestone in Q221. The letter is incongruous with the operational progress that has evidently been made by the company. Notably, the AEG Board has openly refuted the statements made in the Open Letter and have stated they have been advised to pursue appropriate legal recourse.
- Patent/IP status:** The Canadian Intellectual Property Office (CIPO) patent summary for AEG's patent application no. 2999447: 'The process for beneficiating and cleaning biomass', shows the file is currently active. The most recent update includes a submission of the Claims in response to the Examiner Requisition, filed on 2 March 2021. Furthermore, all maintenance fee payments also appear to be up to date. Notably, there has been significant correspondence between AEG's patent lawyers and CIPO since 2018, quite common in the application process. The correspondence also includes a request to reinstate the application that was granted on 22 November 2019 at which time the claims, drawings and descriptions appear to have been resubmitted. All of this is readily available in the public domain. We would expect the IP status in Canada would certainly be part of any 'intensive due diligence' completed by a potential licensing partner for the region, noted in the licensing agreement announcement made on 28 November 2019. If anything, this supports AEG's statement that it believes the Canadian patent application is nearing completion. There are two US patents issued to AEG, both on the USPTO website, dated 12 May 2020 (#10,647,935) & 8 December 2020 (#10,858,607), which provide further support for AEG's IP position.
- Forecasts remain intact:** Recall that our forecasts for 2021E & 2022E only include expected revenue from the CoalSwitch™ biomass production from the 3tph reference plant in NC, USA (increasing to 5tph) and the supporting the lumber operations. We also included an assumption for one licensing agreement in each year – no licensing partner revenue. These forecasts anticipate that AEG will achieve EBITDA breakeven at the end of 2021E, turning positive in 2022E.

Outlook: We expect the CoalSwitch™ biomass technology will soon be validated by the reference plant which is targeted for completion and fulfilment of its first order by June 2021 (Q221). Once the reference plant is commissioned, AEG will have the final piece of its waste-to-energy platform model in place to showcase to potential partners & offtake customers, setting the stage for future growth. In our view, the current share price falls far below the potential opportunity and remains a buying opportunity.

Additional CoalSwitch™ Biomass Reference Plant Progress Photos from AEG





Source: AEG

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