

31 January 2018

Australia Securities Exchange Announcement

Shareholder update and outlook for 2018

Highlights:

- **“War on plastic” driving consumer demand towards Leaf enabled products**
- **Segamat, Johor site the foundation for Leaf’s Malaysian project**
- **2018 objectives**
 - **Complete feasibility on Segamat site by June 2018**
 - **Secure approval for advantaged finance by June 2018**
 - **Engineering works finalised at Front End Loading level 3 by Dec 2018**
 - **Bankable feasibility nearing completion**

Leaf Resources (ASX: LER) (“Leaf” or “the Company”) is pleased to provide a quarterly update for the period ending 31 December 2017 and an outlook for 2018.

In 2017, the Company laid solid foundations for its Malaysian project at Segamat, Johor and this work will underwrite further progress on the Segamat project in 2018.

The addition of LEAFcoat in October 2017, Leaf's new biodegradable, recyclable and renewable packaging product, also adds considerable upside to the company with the potential for cash flows in 2018.

With solid foundations set in 2017, this year is shaping up to be a transformative year for Leaf Resources.

The war on plastics gets real

The world's desire to remove petroleum from products is gaining considerable momentum. The war on plastics is at the forefront of this movement as consumer goods manufacturers, of many mainstream everyday products, respond to growing public alarm about pollution and climate change. Comments such as “By 2050 there will be more plastic in the ocean than fish” by the Ellen Macarthur Foundation are driving this consumer awareness.

As the younger generation become the biggest spending group, experts say that the war on plastics, especially, is now shaping the marketing plan for all consumer good companies, and is the latest battleground for consumers wallets. Examples of reactions by consumer good companies include:

- 84 consumer goods companies in the USA signed a pledge to eliminate petroleum sourced products from their supply chain
- The European Union has said that it would ensure plastic packaging within the bloc would be eliminated by 2030

- McDonalds have announced goals to make all of its packaging from renewable or recyclable sources by 2025.

Leaf Resources' technologies are positioned to be a key enabler to the success of such ambitions: Leaf's industrial sugars are a vital feedstock for the production of biodegradable bioplastic and renewable chemicals and Leaf's new biodegradable renewably sourced packaging product LEAFcoat can increase recycling and replace plastics.

Malaysian Project: 2017 achievements

In November 2017 Leaf and its development partner Claeris, identified and signed a term sheet for a strategically positioned site in Segamat, Johor for the development of our first commercial scale biorefinery.

The Segamat site is located next to the Segamat Inland Port facilities, providing excellent logistics to ports at Johor and Kuala Lumpur. The site also is surrounded by an abundant supply of Empty Fruit Bunch (EFB), essential to the ongoing supply of biomass the project requires.

Inputs

The site is ideally located next to a potential key biomass partner (B&G Renewables) with whom Leaf signed a Letter of Intent (LOI) to evaluate opportunities to collaborate and/or integrate existing operations, including the provision of empty fruit bunch (EFB) biomass.

The Company also signed an exclusive agency agreement with HB International for the supply of raw glycerol and the sale of refined glycerol. HB International is one of the largest glycerol brokers in the world, with a strong presence in Asia. Crude glycerol is a key input for our process and refined glycerol is a key output.

These actions mean that the supply of the two key inputs for the project, biomass and glycerol, are well progressed.

Outputs

In November 2017, the Company announced an important step towards securing project offtakes, with a collaboration agreement between Leaf Resources and Verdezyne Inc. This partnership between Leaf Resources and Verdezyne will evaluate the use of empty fruit bunch biomass sugars for the production of biobased chemicals using Verdezyne's proprietary yeast fermentation processes.

Given that Leaf's previous sugar samples from hardwoods have worked with Verdezyne's yeasts, Leaf is positive about the outcome of this collaboration and the potential for sales of Leaf's industrial sugars from its Segamat project to Verdezyne.

Government support

The Leaf team continues to enjoy strong support from key government agencies in Malaysia including: AIM (Agensi Inovasi Malaysia), MIDA (Malaysian Investment Development Authority), MPIC (Ministry of Plantation Industry and Commodities) and the Malaysian Bio-economy Development Corporation.

The land at Segamat is classified as “Less Developed Area” status, under the control of MIDA, which offers a tax-free status of up to 15 years. Our formal application for this status has been lodged.

One of the key steps forward in 2017 was the identification of an advantaged pathway for finance that would see Leaf retain a substantial share of the economic profit of the Segamat project for minimal capital input.

Known as “offset financing” the Technology Development Authority (TDA) is the government authority controlling the process and it has US\$11.2b of funds for deployment on approved projects. Our application for TDA approval has been lodged. The TDA also approves a weighting factor for the project. A weighting factor means that companies with obligations to the TDA can discharge them with less investment e.g. a weighting of two will halve their obligation whilst a weighting of four cuts it by 75%.

LEAFcoat

In October 2017, Leaf Resources announced its breakthrough product LEAFcoat which will provide a pathway for renewable, recyclable and biodegradable waterproofing coating for paper and cardboard. This product opens large opportunities to replace wax and or plastic coatings in cardboard boxes, food containers and coffee cups as well as being able to replace black plastic used for mulching. Leaf Resources aims to have commercial sales from this product in 2018.

The biodegradable packaging market is worth \$5 billion annually and expected to grow at a CAGR of +20% per annum. Leaf believes that LEAFcoat has the potential to be a significant product in this market.

2018 Objectives

The Company has set the following objectives for 2018.

Segamat Project

By end of March 2018

- Finalise legal agreement for option on land at Segamat
- Approval of Government tax Incentives – “Less Developed Area” status
- Finalise plans for the second phase of the integrated study At Delft in Holland as an input to FEL3 now that we have successfully completed the first phase

Key Deliverables: Land option and tax free status of project completed.

By end of June 2018

- Complete feasibility study at FEL2 level scoped for Malaysia
- Front-end Loading stage 3 (FEL3) engineering company appointed
- Produce samples of EFB industrial sugars for potential customers
- Finalise EFB biomass supply agreement with B&G Renewables (complete specification and supply chain development)
- Secure approval for “offset” finance package from TDA for Leaf’s Segamat project.
- Ownership structure of the Segamat project understood so that Leaf Resources share is known.

Key Deliverables: Finance pathway and ownership structure locked in and feasibility study completed. With the achievement of these key deliverables Leaf’s potential cash flow from the Segamat project and the NPV of the project will be clear.

By end of December 2018

- Identify, engage and sign agreements with additional end market users of leaf’s industrial sugars
- Complete integrated and FEL3 studies
- Finalise an Agreement on provision of utilities at Segamat, Johor
- Sign agreement with an Engineering Procurement and Construction (EPC) contractor for Segamat, Johor
- Bankable feasibility nearing completion

Key deliverables: FEL3 finalised, with Bankable feasibility nearing completion

LEAFcoat - Leaf’s recyclable, renewable and biodegradable packaging product

This product has potential in a number of markets including:

- Waterproofing cardboard boxes, replacing wax and plastic coating
- Agricultural mulching markets
- Food packaging including addressing the disposable coffee cup issue

LEAFcoat enhances our Malaysian strategy as it utilises lignin and glycerol, two of Leaf’s products from its biorefinery project and will further enhance the already very attractive returns from the biorefinery project.

Since announcing LEAFcoat, Leaf has received inbound inquiry from the international packaging industry. Most of these companies have specific uses for the product and they will require individualised testing for those specific purposes. The market opportunity remains very large as the product fulfills many of the requirements of the new regime for packaging required by consumer goods companies.

In addition to the applications already advised Leaf is exploring additional uses of the product that target the cardboard recycling markets.

LEAFcoat goals

By end of Mar 2018

- Toll manufacturing sourced
- Samples available and provided to selected parties

By end of June 2018

- Leaf's testing for specific companies and uses completed (e.g. oxygen barrier and grease testing)

By end of Dec 2018

- One or more agreements for the supply of LEAFcoat, Leaf's biodegradable, renewable, recyclable packaging solution

Financial overview

Following a capital raise in December 2017, the Company finished the December quarter with a cash balance of \$3.556 million as reflected in the attached Appendix 4C.

A highlight of the raise was that institutional investor Tribeca Investment Partners Pty Ltd became a major shareholder, further demonstrating the credibility, value and opportunity that Leaf's Glycell™ technology offers.

Outlook

2018 promises to be a pivotal year as Leaf Resources progresses the Segamat project as well as it's LEAFcoat product.

Given the world is realigning its thinking on petroleum based chemicals and plastics, Leaf Resources is ideally positioned with a project that can fill a massive gap in the market by providing essential industrial sugars, renewably sourced and with a cleanliness, that can produce the high value chemicals required.

In addition our LEAFcoat product is addressing renewable packaging and food packaging markets which are both potentially very large markets.

ENDS

About Leaf Resources Ltd (ASX: LER)

Leaf Resources is one of the world's leading companies in converting plant biomass into industrial sugars. Our proprietary process for converting biomass-to-functional industrial sugars enable a myriad of downstream technologies for the production of renewable chemicals that will substitute petrochemicals used in manufacturing today. With our project development and continued technical innovation we are building a robust global business centered on renewable carbon containing products to deliver environmental and economic benefits to our shareholders and our planet. More on www.leafresources.com.au

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

LEAF RESOURCES LIMITED

ABN

18 074 969 056

Quarter ended ("current quarter")

31 December 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) research and development	(190)	(387)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(321)	(654)
(f) administration and corporate costs	(281)	(716)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	2
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	646	646
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(145)	(1,109)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(2)	(6)
(b) businesses (see item 10)	-	-
(c) investments	(336)	(727)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(338)	(733)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	3,212	4,878
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(33)	(54)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	3,179	4,824

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	860	574
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(145)	(1,109)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(338)	(733)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,179	4,824

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	3,556	3,556

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	3,556	860
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,556	860

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

145

-

Payments to Directors consist of directors' salaries, fees and consulting fees for the quarter, including superannuation. This excludes any amounts that were unpaid as at the end of the quarter.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

-

-

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	316
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	-
9.4 Leased assets	-
9.5 Staff costs	309
9.6 Administration and corporate costs	225
9.7 Other (provide details if material) (further investment in overseas subsidiary (\$278), option fee for land purchase (\$205), deposit for capital equipment for integrated trial (\$614) and GST (\$22)	1,119
9.8 Total estimated cash outflows	1,969

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity		
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:


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(Director)

Date: 31/1/18

Print name: Ken Richards

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.