



Leigh Creek Energy would like to acknowledge the Adnyamathanha people, the traditional owners of the land on which we operate and pay our respects to their Elders past and present.



# **Approved**

Statement of Environmental Objectives (SEO)

**Activity Notifications (AN)** 

- Facility construction
- Drilling of UCG process and monitoring wells
- Facility testing



# **Approval Pending**

**Activity Notifications (AN)** 

 Gasifier commissioning and operation

# **Community Benefit**



**Room nights** 

Copley + Leigh Creek:

548

\$

**Economic benefit** 

to local community:

\$220,000



**Economic benefit** to SA

\$5.43million



**Increase in staff employed** 

#### PCD Area



Area of PCD:

34,000 m<sup>2</sup>

Area of PEL 650:

93,400,000 m<sup>2</sup>

## **PCD Plant**



Total workshop hours worked: **9,159** 

## Safety



Lost time

incidents/injuries:

Plant testing failures: 0

## Drilling



Groundwater monitoring

& geological baseline investigation wells

drilled:

40

ISG process wells

drilled:

3

## **Company Overview**

Listed on the Australian Stock Exchange - ASX code: LCK

Licence: Petroleum Exploration Licence 650 (PEL 650)

Head Office: Adelaide, South Australia

Project Location: Telford Basin, Leigh Creek Coalfield - Leigh Creek, South Australia

**Operation:** Leigh Creek Energy Project

Project Stage: Pre-Commercial Demonstration Plant (PCD)

Employees and contractors: 80+

# **Leigh Creek Energy Project**

Leigh Creek Energy (LCK) is the owner and proposed operator of the Leigh Creek Energy Project (LCEP), located at Leigh Creek in South Australia, 550 km north of Adelaide. The project is located on Petroleum Exploration Licence 650 (PEL 650), which contains the Leigh Creek Coalfield, and will develop the deep coal resources that are unable to be accessed by open-cut mining through in situ gasification (ISG).

The ISG process converts coal from its solid state into a gaseous form, resulting in the production of synthesis gas (syngas) containing methane, hydrogen and carbon monoxide. The syngas can either be used to produce electricity directly or further refined into a variety of products including natural gas, ammonia, urea, or methanol.

LCK's pathway to development of the LCEP comprises the following stages, with each stage requiring careful planning and engineering, in addition to the necessary regulatory assessments and approvals:

 Characterisation Phase – This will determine the environmental, geological, geotechnical and hydrogeological perspectives of the site for a low risk ISG project.

- Demonstration Phase Through a Pre-Commercial Demonstration Facility (PCD) we will demonstrate ISG at the LCEP using a low cost rapid deployment technique. This will provide environmental and gas quality data to inform regulators and determine commercial project design and feasibility study direction.
- Commercial Phase Conduct engineering design and feasibility studies to support the selected commercial deployment of ISG at the LCEP. LCK intends to use existing technologies and develop enhanced techniques for our specific location and geology.

The PCD is planned to be operational for approximately 2-3 months, during which time it will obtain process and environmental data of importance for the commercial phase of the project. The demonstration phase involves establishment of an underground single-cavity gasifier and aboveground infrastructure on a small footprint to produce syngas. This will allow us to confirm the composition and performance of the process while gathering environmental data to support the commercial plant approvals process.

LCK is committed to developing the LCEP using a best practice approach to mitigate the technical, environmental, and financial project risks.



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## **Chairman's Letter**

It is with great pleasure that I have the opportunity to provide our shareholders with a summary of the last year's progress at Leigh Creek Energy.

This year has been a challenging, rewarding and ultimately a defining year for LCK. We started the 2017/2018 financial year having completed our environmental baseline drilling program ready to lodge our environmental documents for assessment. At that time, our steadfast focus was on operation of the demonstration plant before the end of 2017. We believed that the quality of data we provided to the regulator and the baseline studies were sufficient to gain the requisite approvals.

The achievement of the approvals, construction and drilling was a team effort by all Leigh Creek Energy employees.

Due to the regulators requirement for more information this required us to undertake additional drilling, delaying the approvals process. During the approvals process, LCK required a period of public consultation for our Environmental Impact Report (EIR) and accompanying

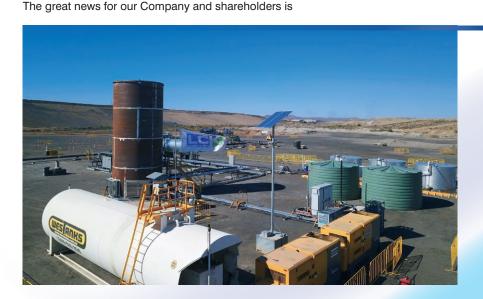
Statement of Environment Objectives (SEO). The public consultation ran for 30 business days and by the time public consultation had finished we found ourselves in a unique position of the Government being in caretaker mode for the 17 March 2018 election.

The then sitting Government was replaced with a new Liberal Government. This change of Government required the new government and their ministers to become familiar with their new portfolios. Unfortunately, all this meant that the approvals we had hoped for by the end of 2017 were delayed until April 2018.

that the environmental approvals we sought were given. Our EIR and our SEO were approved by the Regulator, and the SEO was gazetted on 19 April 2018. Following receipt of the environmental approval, the Company was required to submit a number of operational approval documents, referred to as Activity Notifications. Within three months of the operational approvals for construction and drilling we were able to complete construction of the demonstration plant and the drilling of the inlet and outlet wells at the site. In addition to these process wells, a large network of environmental monitoring wells were installed on site to help our team monitor the underground environment during operations.

The achievement of the approvals, construction and drilling was a team effort by all Leigh Creek Energy employees. Their work has been of the highest quality. Our team working with the regulators have delivered on every work requirement. The operations

team which consists of engineering, geology, environment, stakeholder relations, procurement and commercial studies team have all helped deliver on the construction of the Demonstration Facility. Our finance team, human resources, legal, company secretary and business development have also been crucial and great supports to the corporate side of the business.



Construction site for the demonstration plant at Leigh Creek.

It is also the time to thank our shareholders who have been extremely supportive of the Company, frustrated by the delays, but ultimately understanding of the need to comply with all regulatory requirements. We have a diverse range of shareholders, with many being long term shareholders and some have become shareholders in the recent capital raise. It was reassuring that the capital raise was oversubscribed, the Share Purchase Plan was successful and the placement of the shortfall was also successful. It was a great show of support by our shareholders.

Finally, I am looking forward to being able to update the market on the progress of our demonstration facility, the production of gas and us having a 2P gas resource. This is what we have been working towards for several years, and it will be a great day when I can report to the market the successful completion of this phase of the

Company's progress. As a Company we then move into the next phase, where we have to secure commercial approvals, funding for a commercial project and working with our strategic partners to achieve commercial success and deliver on revenue.

Mr Justyn Peters
Executive Chairman



On site at Leigh Creek, Justyn Peters overlooking the construction of the demonstration plant.

The great news for our Company and shareholders is that the environmental approvals we sought were given.

# **Managing Director's Report**

#### **Commercial focus**

In a time of rapid change for LCK, the focus remains on producing first gas at the PCD. This milestone has been front and centre to LCK for some time now. As we achieve this milestone we are moving away from a demonstration focus to a project development and commercial focus. Before we delve too deeply into our commercial ambitions, let's reflect on the past years challenges, and of course, achievements.

#### Year in review - the challenge, and opportunity, remains

The past year for LCK was filled with ups and downs,

twists and turns, and of course a lot of success as we moved forward with the PCD. One year ago, we began the year determined to gain our environmental approvals and commission the PCD. Although we didn't achieve our goal of operation by December

... we are an unusual project in the resources and energy sphere in that the product from our ISG process - syngas - has multiple potential commercial development pathways.

2017, we successfully had our Statement of Environmental Objectives approved and gazetted by the State Government – a fantastic result which many thought would be beyond us. We are now focussed on operation and with our funding in place, paired with the right people and culture, the operation of the PCD is imminent in Q3 2018, subject to final approvals.

### A changing landscape

As this report is prepared, LCK is experiencing an immediate and rapid change as we move closer to initiation and first gas flow at the Leigh Creek Energy Project. This will be, for many reasons, a momentous occasion in the short history of LCK. The outside view of LCK is that of a company hopeful of turning a potentially large resource into an economic project with much doubt placed on our success. The imminent production of first gas is expected to change this perception dramatically, with many seeing gas production as the final hurdle in

proving that LCK is a real company with a game changing project. This will be further solidified with the expected and subsequent conversion of a large portion of our 2C resource to a 2P reserve.

Internally this is reflected by a change in emphasis as we lift our heads from

the immediate view of gas production to the future horizons – we now focus on the commercial outcomes for the project.

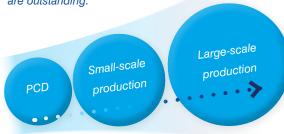


Congratulations, to our team on the achievements to date and we look forward to the opportunities that our future success will bring.

#### **Forward looking**

The forward steps for LCK are to move from precommercial demonstration plant to small-scale commercial and ultimately to full-scale commercial.

The market fundamentals that will underpin our long-term success are outstanding.



The small-scale commercial stage will be of limited capital expenditure. It will further demonstrate the commercial application of the technology proven by the PCD. It is intended that this small-scale commercial project will be of a scale that is able to be funded by LCK itself. This project will play a large part in de-risking the development of the large-scale commercial development.

In considering the future full-scale commercial pathway we are an unusual project in the resources and energy sphere in that the product from our ISG process - syngas - has multiple potential commercial development pathways. The selection of the preferred commercial pathway depends on many factors which ultimately all distil down to risk and return. This selection process has been ongoing for some time with a concerted effort being made by our small studies team. The outcomes will be known in the very near future and, thanks to the

work already done, the decision will be based on sound market research and professional foresight.

It is worth noting that, whatever commercial pathway is settled on, each potential market is in desperate need of our products. The market fundamentals that will underpin our long-term success are outstanding.

## **Building success through people and culture**

It is customary in a report such as this to thank the employees, contractors and consultants that have worked hard to get us to this stage. Ultimately those messages often sound, to me at least, superficial and formula driven. In our case it has to be recognised that our people have been through a tough year. The highs and lows of the year have made it challenging for the team to retain its focus at times, but they have done so with integrity and professionalism. It is a credit to the whole team that, in the face of the recent challenges, we have consistently displayed these values. We would not be here without that focus and effort.

So not thanks, but congratulations, to our team on the achievements to date and we look forward to the opportunities that our future success will bring.

There is a long road ahead before we can rightfully claim to be successful – by this I mean commercial success which drives returns to our employees, community and investors. All our stakeholders can rest assured that this team will continue to be focussed on bringing that commercial success to LCK.

Phil Staveley
Managing Director

Mul



The Leigh Creek Energy construction team.

## 2017/18 Achievements

#### **Regulatory Approvals**

- Statement of Environmental Objectives approved and gazetted – April 2018
- Activity Notification (Facility Construction) approved
   May 2018
- Activity Notification (Drilling of ISG Process and Monitoring Wells) approved – May 2018
- Activity Notification (Facility Testing) approved June 2018

#### **Cultural Heritage**

- Regular Board meeting updates with the Adnyamathanha Traditional Lands Association (ATLA)
- Workshop with ATLA August 2017
- Work Area Clearance (with 8 Adnyamathanha cultural advisors) cleared PCD area on grounds of Cultural Heritage – August 2017
- Flora and Fauna survey completed with Adnyamathanha cultural advisor
- Cultural Heritage Risk Management Plan implemented across the operation
- Heritage Discovery Procedure implemented across the operation

#### **Environment**

- Monthly sampling of groundwater, enabling a solid understanding of baseline conditions at the operational site
- Groundwater and Soil Vapour Monitoring Plan completed
- Air Quality Monitoring Plan completed
- Rehabilitation Management Plan completed

### **Drilling**

- 3 ISG demonstration wells (inlet, outlet and observation well)
- 3 geological investigation wells
- 5 piezometer monitoring wells
- 10 groundwater monitoring wells
- 11 shallow groundwater monitoring wells
- 11 shallow soil vapour investigation wells

#### **Engineering**

- Completed the detailed design of the PCD above ground plant, including modular plant, vessels, piping, thermal oxidiser, cold vent and gas analysis package
- Package equipment and modular plant fully completed and tested offsite
- All equipment & plant delivered and installed on site
- Site acceptance testing completed

#### **Operations**

- Standard Operating Procedures implemented for plant operations
- Operations personnel mobilised to site for testing and commissioning of the plant

#### **Stakeholder Relations**

- Community engagement ongoing for life of project
- Employment of local people (both indigenous and non-indigenous) and ongoing commitment to use local contractors and people where possible
- Workshops, Open Days and one on one meetings educating community members and government in the Leigh Creek area and Port Augusta

#### **Procurement**

- Over 30 local, interstate and international specialist contractors engaged
- Focus on local and Upper Spencer Gulf expertise where possible



### **Financing**

- Capital raising event June 2018
- Cornerstone investor, China New Energy committed to project
- Further extension and increase in the facility limit with the CBA, extended until December 2019 and increased to \$10.5m

## **Commercial Studies**

- Three Scoping Studies completed on urea fertiliser and methanol to align to prior studies on pipeline methane and power production
- Pre-Feasibility Study on small scale power plant up to 30MW (net) in advanced stage
- Studies addressed a broad range of disciplines including; engineering, water supply, waste management, regulatory approvals and commercial agreements
- Selection of preferred products nearing completion and will reflect the lowest risk and best return for shareholders, in addition to providing employment opportunities for South Australians and low-cost products for South Australian industries







The Leigh Creek Energy Project - demonstration plant at Leigh Creek.

## The ISG Process

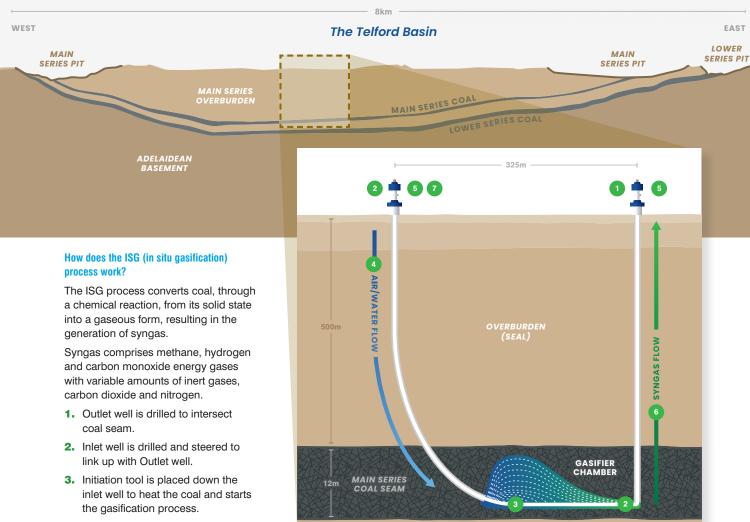


Diagram not to scale

ISG process showing the below ground single ISG gasifier chamber.

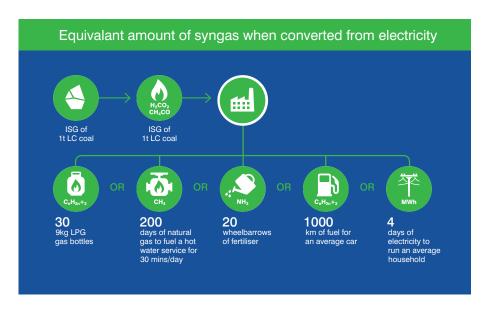
- Addition of air and water creates a series of chemical conversions transforming coal to syngas.
- Process is controlled by using inlet and outlet wells to manage the flow of air and water.
- Syngas will flow up through the outlet well and is analysed on the surface.
- **7.** Process is stopped by turning off air and water supply from the inlet well.

#### Why ISG?

The remaining resource in the Telford Basin at Leigh Creek is deep and no longer economic to mine using open cut mining methods.

ISG technology is able to access the deep coal via a system of drilled linked wells.

Syngas can be used to make other products such as; electricity, synthetic natural gas, ammonia and derivatives (fertilisers or explosives), methanol and diesel.



# **Tenement Schedule**

## **Petroleum and Mineral Tenement Schedule**

Tenement	Percentage Interest	Grant Date	Location
Petroleum Exploration Licence 650	100%	18 November 2014	Leigh Creek
Petroleum Exploration Licence Application 582	100%	Application Approved	Finniss Springs
Petroleum Exploration Licence Application 643	100%	Application Approved	Callabonna
Petroleum Exploration Licence Application 644	100%	Application Approved	Roxby Downs
Petroleum Exploration Licence Application 647	100%	Application Approved	Leigh Creek
Petroleum Exploration Licence Application 649	100%	Application Approved	Oakdale
Gas Storage Exploration Licence 662	100%	5 February 2016	Leigh Creek

## **PEL 650 Coal Resource Analysis**

Tenement block	Working section	Thickness (m)	Depth (m)	Inherent moisture (ad%)	Ash (ad%)	Volatiles (ad%)	Fixed carbon (ad%)	Density (RD)	Area (ha)	Volume (m)	Tonnage (Mt)
PEL650 – ISG WS-G Block 1	F G1-G2-H1	2.0-16.0 Av.7.1	200-366 Av. 276	15.2-17.1 Av. 15.8	6.2-20.6 Av. 10.8	23.9-29.5 Av. 27.7	33.6-47.5 Av. 42.9	1.4	159	11,300,000	15.8
PEL650 – ISG WS-G Block 2	F G1-G2-H1	2.0-7.1 Av. 3.68	200-301 Av. 245	17.1-17.8 Av. 17.7	11.6-12.8 Av. 12.6	27.8-27.9 Av. 27.9	41.4-42.2 Av. 41.6	1.4	24	900,000	1.3
PEL650 – ISG WS-L1 Block 1	L1	2.0-6.3 Av. 3.68	200-392 Av. 245	-	-	-	-	1.4	204	6,140,000	8.5
PEL650 – ISG WS-K2 Block 1	K2	2.0-6.7 Av. 3.3	200-413 Av. 307	-	-	-	-	1.4	301	9,970,000	13.9
PEL650 – ISG WS-Q Block 1	Q1-Q2-Q3	2.0-29.9 Av. 15.97	200-831 Av. 477	20.9-23.0 Av. 22.5	11.0-11.2 Av. 11.1	24.9-25.1 Av. 24.9	40.9-42.3 Av. 41.2	1.4	1069	170,800,000	239
PEL650 – ISG WS-V Block 1	V1-V2-V3-V4	2.0-13.7 Av. 5.4	201-866 Av. 517	18.4-18.8 Av. 18.4	15.9-17.4 Av. 16.0	25.2-25.4 Av25.3	37.0-37.8 Av 37.7	1.4	990	52,800,000	74
PEL650 – ISG WS-W1 Block 1	W1	2.0-5.3 Av. 3.4	292-870 Av. 527	-	-	-	-	1.4	503	17,200,000	24.1
ISG-Project Total										376.6	



#### **Coal and Gas Resources**

The Company's Inferred Coal Resource and equivalent Syngas Resource as at 30 June 2018, reported in accordance with 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) guidelines in the 2007 Society of Petroleum Engineers (SPE) Petroleum Resources Management System (PRMS) guidelines (respectively), are:

Tenement	Location	Coal Resource Category 2018	Coal Resources (Mt) 2018	Coal Resources (Mt) 2017	Syngas Resource Classification 2018	Syngas Energy (Pj) 2018	Syngas Energy (Pj) 2017
Petroleum	Leigh Creek	Inferred	376.6	376.6	1C	2,747.7	2,747.7
Exploration					2C	2,963.9	2,963.9
Licence 650					3C	3,303.1	3,303.1

# Mineral Resource and Syngas Resource Governance and Disclosures

Mineral Resources estimated in accordance with the requirements of the JORC Code, by qualified competent persons who are consultants to Leigh Creek Energy.

Syngas Resources are estimated in accordance with the requirements of the Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers, by qualified petroleum reserves and resources evaluators who are consultants to Leigh Creek Energy.

The Minerals Resource and Syngas Resource Statements in the 2018 Annual Report are reviewed by qualified consultants described below. For Mineral Resources, this is the qualified competent person, and for the Syngas Resources, the qualified petroleum reserves and resource evaluator.

Notes on Coal Resources: For the purposes of ASX Listing Rule 5.23, Leigh Creek Energy confirms that it is not aware of any new information or data that materially affects the information included in the 8 December 2015 Resources Statement and that all material assumptions and technical parameters underpinning the estimates in the Resources Statement continue to apply and have not materially changed. A review of coal quality data and resource modelling is currently in progress and is expected to be completed in the next quarter.

The coal resources reported herein, insofar as they relate to mineralisation, are based on information compiled by Mr Warwick Smyth of GeoConsult Pty Ltd. Mr Smyth is a Member of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists, who has more than 25 years' experience in the field of activity being reported. Mr Smyth has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves". Mr Smyth consents to the inclusion in the report of coal resources estimates based on his information in the form and context in which it appears.

Notes of Gas Resources: For the purposes of ASX Listing Rule 5.43, Leigh Creek Energy confirms that it is not aware of any new information or data that materially affects the information included in the 8 January 2016 Resources Statement and that all material assumptions and technical parameters underpinning the estimates in the Resources Statement continue to apply and have not materially changed.

The Gas Resource estimates stated herein are based on, and fairly represent, information and supporting documentation prepared by Timothy Hower of MHA Petroleum Consultants LLC, Denver USA. Mr Hower is a member of the Society of Petroleum Engineers and has consented to the use of the Resource estimates and supporting information contained herein in the form and context in which it appears. All estimates are based on the deterministic method for estimation of petroleum resources.



# **Directors' Report**

Leigh Creek Energy Limited is a public company incorporated and domiciled in Australia and listed on the Australian Securities Exchange.

The directors present their report together with the financial statements of the consolidated entity, being Leigh Creek Energy Limited ("the **Company**" or "**Leigh Creek Energy**") and its controlled entities ("the **Group**") for the year ended 30 June 2018.

### **Directors**

The names of the directors in office at any time during or since the end of the year are:

Daniel Justyn Peters	(appointed 28.11.2014)
Phillip Staveley	(appointed 5.12.2017)
Gregory English	(appointed 22.9.2015)
Murray Chatfield	(appointed 30.6.2016)
Zhe Wang	(appointed 1.7.2017)
Zheng Xiaojiang	(appointed 5.12.2017)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

#### **Information on Continuing Directors**

Daniel Justyn Peters LLB, BA (Politics/Jurisprudence) GDLP

**Executive Chairman** 

Audit and Risk Committee Member

Director since 2014

**Experience & expertise** 

Mr Peters joined Linc Energy soon after its listing on the ASX when Linc Energy was considered a world leader in underground coal gasification. In his six years at Linc Energy Mr Peters held the positions of General Manager Environment and Government Relations, General Manager Business Development, Executive General Manager North Asia and finished as Executive General Manager of Investor Relations. His experience across a broad range of business units within Linc Energy will prove invaluable in developing the Leigh Creek Energy project.

Previously Mr Peters was employed at the Queensland Environmental Protection Authority (EPA) as head of Investigations and Compliance and then acting Director of Central and Northern Regions. He managed the integration of the environmental regulation of the Queensland Mining Industry into the EPA.

Other current listed directorships

**Emperor Energy Limited** 

Previous listed directorships (last three years)

None

Phillip Staveley CPA, BA (Acc) (Hons), Dipl Btr

Managing Director

Director appointed effective from 5.12.2017

**Experience & expertise** 

Mr Staveley is a qualified Accountant who has 30 years' experience working in the resources sector.

He started his career in the oil and gas sector working for Schlumberger in London, followed by a number of years with SAGASCO and SAOG (South Australian Oil and Gas Company). He spent almost ten years with Normandy Mining Ltd. Whilst with Normandy he fulfilled a number of planning, finance, M&A and commercial roles, including the establishment of a Group Supply Function and three years based in Rio de Janeiro as the CFO of TVX Normandy Americas.

Since 1998 he has been involved in mining and contracting companies in the position of CFO and more latterly, CEO roles with an emphasis on strategy and corporate finance.

Other current listed directorships

None

Previous listed directorships (last three years)

Oakdale Resources Limited



#### Gregory D English LLB, B.Eng (Mining)

Non-Executive Director

Audit and Risk Committee Member

Director since 2015

#### **Experience & expertise**

Mr English is an experienced and qualified mining engineer and lawyer with over 25 years of involvement in the resources industry. As a mining engineer he has worked on underground and open pit coal mines, including working as a mining engineer at the Leigh Creek Coalfield where he lived in the Leigh Creek town. As a lawyer Greg has acted for numerous oil and gas companies and advised on numerous gas marketing, gas transportation and similar transactions.

Greg's experience in the coal industry, and in particular his knowledge of the Leigh Creek Coalfield, and experience and contacts in the oil and gas industry is a significant asset to the Company.

Other current listed directorships

Archer Exploration Limited and Core Exploration Limited

Previous listed directorships (last three years)

None

**Murray K Chatfield** B Com Ag (Economics and Marketing), MBA, ACT, MAICD

Non-Executive Director

Audit and Risk Committee Chair

Director since 2016

## **Experience & expertise**

Mr Chatfield has extensive experience within finance with nearly 30 years' experience within investment banking, hedge funds and corporate finance both in Australia and internationally. He was a senior Economist with the New Zealand government before joining Bankers Trust in London. He then moved into Hedge Funds initially as European Treasurer and then as a Partner and COO in a Relative Value Hedge Fund. He was the COO and Partner in an Australian based fund focussed on Global Macro events. He has been and is still, actively involved as a Director of several unlisted companies in the Commodity and Marketing areas. Mr Chatfield's career covers finance, treasury, accounting, operational efficiency, risk management (business, market, tax and regulatory), legal and regulatory compliance and direct financial market interaction.

Other current listed directorships

None

Previous listed directorships (last three years)

None



**Zhe Wang** B.Sc (Thermal Dynamics)
M.Eng (Energy Engineering and Thermal Physics)

Non-Executive Director

Director appointed effective from 1.7.2017



#### **Experience & expertise**

Zhe joined the Leigh Creek Energy Board as a Non-Executive Director on 1 July 2017.

Zhe is a Chinese based Energy and Thermal Physics Engineer, and nominee of China New Energy Group Limited (one of Leigh Creek Energy's major shareholders). He has over 8 years Executive Management experience. Zhe also sits on the Board of Beijing Raise Mind Technology Ltd. Zhe's key areas of expertise include; Coal Combustion; Renewable Energy Applications and Steel Sinter. He has a Bachelor of Thermo Dynamics, Renewable Energy Applications as well as a Masters in Energy Engineering and Thermal Physics, Coal Combustion.

Other current listed directorships

None

Previous listed directorships (last three years)

None



Director appointed effective from 5.12.2017



## **Experience & expertise**

Zheng joined the Leigh Creek Energy Board as Non-Executive Director on 5 December 2017.

Zheng is a senior finance executive and brings wide experience in the finance sector in both Australia and China. His experience includes having been a senior official for The People's Bank of China in Australia and New Zealand. Zheng was responsible for facilitating the investment in LCK by China New Energy, LCK's largest shareholder.

Other current listed directorships

None

Previous listed directorships (last three years)

None

#### **Company Secretary**

Jordan Mehrtens is a qualified lawyer, and has other qualifications in finance and urban and regional planning. Jordan has worked with Leigh Creek Energy since its commencement, providing regulatory, compliance and other analytical advice. Jordan is a member of the Governance Institute of Australia and performs the secretarial role in the Company. Jordan has been the Company Secretary of Leigh Creek Energy Limited since 2015.

### **Principal Activities**

The principal activity of the Group was advancing the development of its Leigh Creek Energy Project (LCEP).

#### **Review of operations and financial results**

Leigh Creek Energy Project:

The Company continued its progress towards full regulatory approval, above and underground construction and subsequent operation of the precommercial demonstration (PCD) at the LCEP. PCD operation is scheduled to commence in the third quarter of 2018.

During the year the Company received approval of its Statement of Environmental Objectives (SEO) for the Company's PCD stage of the LCEP. This constitutes the environmental approval for PCD operations and follows completion of the public consultation stage for the PCD. These are key documents required for Government approvals for the PCD operations. LCK must submit three Activity Notifications to advise the Regulator of the specific activities that are to be undertaken under the framework of the SEO. The status of the these is as follows:

- 1. PCD Process well drilling received 15 May 2018;
- PCD Aboveground plant construction received 29 May 2018; and
- 3. PCD Operations including operating, decommissioning and monitoring pending.

The key LCEP activities undertaken on site during the period included the completion of a 15 hole monitoring well drilling program and the advancement of the PCD process well drilling and aboveground plant construction, both of which have been completed in the third quarter of 2018. Upon receipt of the final Activity Notification approval from Government for PCD Operations, the LCEP is expected to progress rapidly to production of first syngas.

The construction and operation of the PCD facility is a major de-risking event for LCK and a significant step toward commercialisation plans for the LCEP. With the on-site construction of the PCD effectively complete, the operations phase will:

- Demonstrate the production of syngas from LCK's gasification technology at Leigh Creek
- 2. Demonstrate that LCK can operate the ISG gasifier safely and in an environmentally responsible manner
- 3. Deliver the economic parameters for final design and planning of the commercial plant
- Provide environmental and process data required for commercial scale approvals
- Provide the information required for the review of the existing SPE-PRMS 2C 2963.9 PJ resource and the expected partial conversion from contingent resources to reserves (refer ASX announcement 8 January 2016)

In parallel to the PCD approvals and construction the Company has been developing plans to generate electricity from a small gas fired power station ahead of its full-scale commercial project. This small-scale project will enable the larger scale project stage by providing the following benefits:

- Manageable project size;
- Low CAPEX and operational risk;
- Simple design;
- No redundant capital power plant is used for largescale project;
- Minimal offsite infrastructure requirement;
- Early cash flows;
- Importantly a commercial stepping stone, providing proof of commerciality on the path to the large scale project.

Information provided by operating the PCD under different parameters will inform the design of this phase of the LCEP.

#### **Finance and Corporate:**

The consolidated operating loss of the financial year to 30 June 2018 was \$6,018,850 (2017: (\$5,758,760)). Expenditure incurred on the LCEP capitalised as Exploration expenditure, net of 2016/17 R&D tax offset rebates received (\$2,173,372) and R&D rebates receivable for 2017/18 (\$9,010,220), was \$10,414,426 (2017: \$3,535,245).

The Company has a working capital facility with the Commonwealth Bank of Australia (CBA) to bring forward access to refundable R&D tax concessions (refer Note 10 for Borrowings). This has provided LCK with the flexibility to bring forward its tax offsets by providing a draw down on eligible expenditure and for CBA to be repaid from the company's taxation return rebate. In June 2018 LCK extended the Facility to December 2019 and the facility limit was increased to \$10.5m. Following receipt of the 2017/18 ATO rebate and clean down of the Facility the limit will decrease to \$3.6m to match anticipated 2018/19 tax rebates. A total of \$3,830,000 was drawn under the extended facility as at 30 June 2018.

In March 2017, Leigh Creek Energy signed a subscription agreement with China New Energy Group Limited (CNE) for the issue of 136.3 million Leigh Creek Energy Limited Ordinary Shares in three tranches at an average issue price of \$0.147 per share. On 27 October 2017, China New Energy Group Limited (CNE) completed the final tranche of their \$20 million investment in the Company increasing their interest to 32.78% of capital on issue.

In June 2018 the Company successfully launched a capital raising incorporating a private placement of 36.9m new fully paid ordinary shares in the Company on 25th June to institutional, sophisticated and professional investors at an issue price of A\$0.16 per Share. The other components of the raising included:

- a Share Purchase Plan (SPP) of up to 18,750,000
   Shares launched on 25 June 2018 giving shareholders the opportunity to purchase up to \$15,000 of Shares at a price of \$0.16 each;
- a SPP shortfall facility;
- on completion of these steps and shareholder approval, a CNE placement enabling it to return to its percentage shareholding pre-capital raising of 32.78%.

Upon shareholders approving the final tranche and the shares being placed to CNE the capital raising will total \$13.24 million (before fees) - the placement of 27,126,447 shares to China New Energy Group Limited (CNE) at 16 cents per share to raise \$4.34m being the final tranche. This placement is subject to shareholder approval at a General Meeting of shareholders on 22 August 2018.

In July 2017 the Company appointed Zhe Wang as Non-Executive Director and CNE delegate (on completion of the second tranche of the CNE investment CNE were granted the right to a seat on the Board of Directors) and subsequently announced on 6 December 2017 the appointments of Mr Zheng Xiaojiang as Non-Executive Director and Mr Phillip Staveley as Managing Director, further strengthening the board.

The Chairman's report contains further information on the detailed operations of the Group during the year.

#### **Dividends**

The Directors do not recommend the payment of a dividend and no amount has been paid or declared since the end of the previous financial year.

#### Significant changes in state of affairs

No significant change in the state of affairs of the Group occurred during the financial year, other than as already referred to in this report.

### Likely developments, prospects and business strategies

Final operational approvals are currently being sought for the pre-commercial development phase of the project with operations scheduled to commence in the third quarter of 2018. In the context of the current and forecast gas, electricity and fertilizer markets, it is anticipated that the Company will then become an attractive business partner.

The Group will require further capital to sustain its activities.

### After reporting date events

- A total of 9,510,000 new ordinary shares were issued to participating shareholders at A\$0.16 per share under the SPP on 20 July 2018. The Company reserved the right to place the unsubscribed balance of the SPP.
- On 30 July 2018 a total of 9,240,000 new ordinary shares were issued to institutional and sophisticated investors who are primarily existing shareholders of the Company at \$0.16 per Share, to place the shortfall from the SPP.
- 3. Employee Share Options were issued on 18 July 2018
   total of 5,790,000 options issued at an exercise price of \$0.251, expiring on 16 July 2022.
- 4. A General Meeting was held on 22 August 2018 to approve a placement to CNE of 27,126,447 shares at 16 cents per share to raise \$4.34m. Upon approval and placement, CNE return to its percentage shareholding pre-capital raising of 32.78%. In addition, shareholders were asked to approve the issue of 4,000,000 unlisted options to directors and 1,000,000 to the Company Secretary at an exercise price of \$0.35 expiring on 17 April 2023, and 5,000,000 unlisted options to executive directors at an exercise price of \$0.246 expiring on 3 July 2022.

### **Meetings of Directors**

During the financial year, the number of meetings held at which a director was eligible to attend and the number actually attended by each director were:

Director	Board i	Board meetings		Audit & Risk Committee		
	Meetings held	Meetings attended	Meetings held	Meetings attended		
D J Peters	10	10	4	4		
P J Staveley	5	5	-	-		
G D English	10	10	4	4		
M K Chatfield	10	10	4	4		
Z Wang	10	10	-	-		
Z Xiaojiang	5	5	=	=		

#### **Unissued shares under options**

At the date of this report, the unissued ordinary shares of Leigh Creek Energy Limited under unlisted and listed options are as follows:

Grant Date	Date of expiry	Exercise price	Number under option
14 October 2015	14 October 2019	\$0.212	1,000,000
14 October 2015	14 October 2020	\$0.25	1,000,000
1 December 2015	31 July 2020	\$1.50	1,000,000
1 December 2015	30 November 2020	\$0.30	8,090,000
27 June 2016	31 October 2018	\$0.20	1,500,000
27 June 2016	31 October 2018	\$0.22	1,500,000
27 June 2016	31 October 2018	\$0.24	1,500,000
27 June 2016	31 October 2018	\$0.26	1,500,000
11 July 2016	30 November 2020	\$0.49	27,500
15 July 2016	11 May 2019	\$0.30	1,500,000
15 July 2016	8 May 2021	\$0.30	800,000
4 October 2016	10 October 2021	\$0.35	2,000,000
4 October 2016	10 October 2021	\$0.45	2,000,000
10 July 2017	30 November 2020	\$0.30	306,000
17 July 2018	16 July 2022	\$0.251	5,790,000
Total			29,513,500

Options forfeited during the period up to and including the date of this report include 680,000 cancelled upon resignation and a further 977,500 options having expired due to vesting conditions not being met.

Options granted during the period up to and including the date of this report to employees and consultants include 636,000 with an expiry date of 30 November 2020 (330,000 subsequently cancelled upon resignation) and 5,790,000 with an expiry date of 16 July 2020.

Options granted but not yet issued at the date of this report include 4,000,000 director options and 1,000,000 company secretary options (related party) granted 18th April 2018 with issue subject to shareholder approval on 22nd August 2018. In addition, 5,000,000 director options were granted 4th July 2018 with issue also subject to shareholder approval on 22nd August 2018.

A number of listed options (17,687,463 at an exercise price of \$0.50) were issued as part of the prospectus for the capital raising finalised in May 2016. The listed options lapsed unexercised on the 6th June 2018 and as such there are nil listed options over shares of the Group at the end of the financial year.

During the year ended 30 June 2018, and to the date of this report no ordinary shares of Leigh Creek Energy Limited were issued on the exercise of options. None of the options on issue entitles the holders to participate, by virtue of the options, in any dividend or share issue of the Company.

#### **Proceedings**

The Company is not currently a party to legal proceedings brought against it or initiated by it at the date of this report.

### **Environmental issues**

The Company and subsidiaries are required to comply with various Commonwealth and State environmental legislation in relation to its planned exploration activities and future development at the Leigh Creek site.

No notification of any breach of any environmental regulation has been received in respect of any of the Company's exploration activities during the year.

### Indemnities given to, and insurance premiums paid for, officers

During the year, the company paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all Directors.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer of the Group against a liability incurred as such by an officer.

### **Non-audit services**

During the year, Grant Thornton Audit Pty Ltd, the Company's auditors, did undertake a review of the Employee Share Option Plan in addition to their statutory audit duties. Grant Thornton Corporate Finance Pty Ltd (Sydney) prepared an Independent Expert Report in July 2017. The amounts paid for non-audit services are \$55,750.

### **Auditor's Independence Declaration**

The Auditor's Independence Declaration for the year ended 30 June 2018 can be found on page 29 and forms part of the Directors' Report.

## **Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

## **Remuneration Report – audited**

# 1. Principles used to determine the nature and amount of remuneration

The remuneration policy is designed to align the objectives of the Key Management Personnel with shareholder and business objectives by providing a fixed remuneration package to non-executive Directors and time based remuneration to Executive Directors. The Board of Leigh Creek Energy believes the policy to be appropriate and effective in attracting and retaining the best Directors and Executives to manage and direct the Group, as well as create goal congruence between Directors, Executives and shareholders.

The Company's policy for determining the nature and amounts of emoluments of board members and other Key Management Personnel of the Company is as follows.

The Company's Constitution specifies that the total amount of remuneration of non-executive Directors shall be fixed from time to time by a general meeting. The current maximum aggregate remuneration of non-executive Directors has been set at \$750,000 per annum (as approved by shareholders on 22 August 2018). Directors may apportion any amount up to this maximum amount amongst the non-executive Directors as they determine. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in performing their duties as Directors.

Non-executive Director remuneration is by way of fees and statutory superannuation contributions. Non-executive Directors do not participate in schemes designed for remuneration of executives but they may receive options or bonus payments subject to shareholder approval and are not provided with retirement benefits other than salary sacrifice and statutory superannuation.

The Company's remuneration structure is based on a number of factors including the particular experience and performance of the individual in meeting key objectives of the Company. The Board is responsible for assessing relevant employment market conditions and achieving the overall, long term, objective of maximising shareholder benefits through the retention of high quality personnel.

The Board may approve the payment of cash bonuses from time to time in order to reward individual executive performance in achieving key objectives as considered appropriate by the Board.

The Company also has an Employee Share Option Plan, approved by shareholders, that enables the Board to offer eligible employees options to acquire ordinary fully paid shares in the Company. Under the terms of the Plan, options to acquire ordinary fully paid shares may be offered to the Company's eligible employees at no cost unless otherwise determined by the Board in accordance with the terms and conditions of the Plan. The objective of the Plan is to align the interests of employees and shareholders by providing employees of the Company with the opportunity to participate in the equity of the Company as an incentive to achieve greater success for the Company and to maximise the long term performance of the Company, and can also be used as a reward for performance.

As the Company is developing an energy asset which is not yet in production, in the opinion of the Board, the Company's earnings and the consequences of the Company's performance on shareholder wealth are not related to the Company's remuneration policy.

#### Voting at 2017 AGM

Of the total valid available votes lodged, Leigh Creek Energy received 83.67% "yes" votes on its remuneration report for the 2017 financial year with the motion carried unanimously on a show of hands as an ordinary resolution. The Company did not receive any specific feedback at the AGM on its remuneration practices.

## **Use of remuneration consultants**

The Company has engaged and sought benchmarking advice from remuneration consultants. In 2018 independent consultants were engaged to undertake market benchmarking to provide information on KMP remuneration.

The Corporations Act 2001 requires companies to disclose specific details regarding the use of remuneration consultants. The mandatory disclosure requirements only apply to those advisors who provide a "remuneration recommendation" as defined in the Corporations Act 2001. The Board did not receive any remuneration recommendations during the reporting period.

### 2. Details of remuneration

Details of the nature and amount of each element of the remuneration of each Key Management Personnel (KMP) of the Group are shown in the table below:

			Short term be	enefits		Post employment benefits	Termination benefits	Share based payments	
	Year	Directors fees	Salary and wages	Other	Non-monetary benefits <sup>1</sup>	Super contributions \$		Options <sup>2</sup>	Total
Executive director	s								
D J Peters	2018 2017	-	309,790 300,000	-	4,402 6,262	27,470 28,500	-	4,723 5,655	346,385 340,417
P J Staveley <sup>5</sup>	2018 2017	- -	324,877 275,000	-	3,926	28,268 26,125	-	13,792 63,658	370,863 364,783
D K Shearwood <sup>3</sup>	2018 2017	-	- 68,750	-	- 8,267	- 6,531	- 305,163 <sup>4</sup>	- (5,306)	- 383,405
Non-executive dire	ectors								
G D English	2018 2017	50,000 50,000	-	-	-	4,750 4,750	-	- (97,942) <sup>8</sup>	54,750 (43,192)
M Chatfield	2018 2017	50,000 50,192	-	-	-	4,750 4,768	- -	- (91,171) <sup>8</sup>	54,750 (36,211)
Z Wang⁵	2018 2017	29,168 -	- -	21,019	- -	2,771 -	- -	114,161	167,119 -
Z Xiaojiang <sup>5</sup>	2018 2017	28,782	- -	115,000 <sup>6</sup> -	- -	2,734	- -	114,161	260,677
Other key managen	nent personn	el							
J Haines	2018 2017	-	282,500 275,000	-	892 1,247	26,838 26,125	-	13,792 63,658	324,022 366,030
M Terry <sup>7</sup>	2018 2017	- -	257,000 250,000	- -	- -	24,415 23,750	- -	6,896 31,829	288,311 305,579
G Marsden	2018 2017	- -	- 72,917	-	- - -	- 6,927	- 12,498	6,803	- 99,145
Total	<b>2018</b> 2017	<b>157,950</b> 100,192	<b>1,174,167</b> 1,241,667	136,019	<b>9,220</b> 15,776	<b>121,996</b> 127,476	- 317,661	<b>267,525</b> (22,816)	<b>1,866,877</b> 1,779,956

#### Notes

- Non monetary benefits include benefits provided to the KMP on which Fringe Benefits tax is paid.
- In accordance with the Accounting Standards, remuneration includes a proportion of the notional value of the options granted or outstanding during the year. The notional value of options is determined as at the issue date and is progressively allocated over the vesting period. The amount included as remuneration is not indicative of the benefit (if any) that the employee may ultimately realise should the option vest. The notional value of the options as at the issue date has been determined in accordance with the accounting policy Employee Remuneration Note 11.
- Mr Shearwood was made redundant on 30 September 2016.
- Under the terms of Mr Shearwood's termination, he received a redundancy payment of \$293,000 plus unused leave.
- Options were granted on a provisional basis to Non-Executive Directors on 18th April 2018. As the remuneration is required to be approved by shareholders, the options will be granted and issued following approval at General Meeting in August 2018. Under accounting rules, the options were expensed in the financial year based on the provisional grant date
- <sup>6</sup> Mr Xiaojiang provided consulting services during the year.
- Mr Terry resigned effective 17 August 2018.
- Options were approved at the AGM in September 2016 for these directors. Under accounting rules, the options were expensed in the previous financial year using 30 June 2016 as the provisional grant date. An adjustment to accounting expense has been completed in this financial year to true-up the expense based on the actual grant date price.

### 3. Service agreements

Remuneration and other terms of employment for the Executive Directors and other Key Management Personnel are formalised in a Service Agreement. The major provisions of the agreement relating to remuneration are set out below:

Employee	Base salary	Term of agreement	Notice period
D J Peters	\$309,790	Ongoing	3 months
P J Staveley <sup>1</sup>	\$350,000	Ongoing	6 months
J Haines	\$282,500	Ongoing	12 months
M Terry	\$255,000	Ongoing	3 months

#### Notes

<sup>1</sup> Salary effective from 5 December 2017 being date of appointment as Managing Director.

### 4. Share-based remuneration

Unlisted options are granted to Directors and Key Management Personnel as part of their remuneration. The options are not granted subject to performance criteria, but are issued to the relevant directors and Key Management Personnel of the Group to increase goal congruence between executives, directors and shareholders. All options refer to options over ordinary shares of the Company, which are exercisable on a one-for-one basis under the terms of the agreements. Options granted during this financial year:

Name	Number granted	Grant date	Number vested	Vesting and first exercise date	Last exercise date
Z Wang <sup>1</sup>	-	18 April 2018	-	-	17 April 2023
Z Xiaojiang	1 _	18 April 2018	-	-	17 April 2023
Total	-				

#### Note:

The options were provided at no cost to the recipients. All options expire on the earlier of the expiry date or cessation of the individual's employment (except retiring directors).

Options issued in previous financial years that lapsed or were forfeited during the current financial year:

Name	Number of options forfeited (lapsed) during the year	Financial year in which those options were granted
M Chatfield	25,000¹	2016

#### Notes:

<sup>&</sup>lt;sup>2</sup> Service agreements are presented as at 30 June 2018.

Options were granted on a provisional basis to Non-Executive Directors on 18th April 2018. As the remuneration is required to be approved by shareholders, the options will be granted and issued following approval at General Meeting in August 2018. Under accounting rules, the options were expensed in the financial year based on the provisional grant date.

<sup>&</sup>lt;sup>1</sup> Mr Chatfield acquired 25,000 Listed Options in the May 2016 share placement which lapsed unexercised during the period.

### 5. Other information

Number of options held by Key Management P ersonnel

The number of options to acquire ordinary shares in the Company held during the 2018 reporting period by each of the Group's Key Management Personnel, including their related parties, is set out below:

Name	Balance at start of year	Granted as remuneration	Exercised	Other changes	Closing balance	Vested and exercisable at the end of the reporting period	Vested and unexercisable at the end of the reporting period
D J Peters	750,000	-	-	-	750,000	250,000	-
P J Staveley	2,000,000	-	-	-	2,000,000	1,000,000	-
G D English	2,000,000	-	-	-	2,000,000	2,000,000	-
M Chatfield <sup>1</sup>	2,025,000	-	-	(25,000)	2,000,000	2,000,000	-
Z Wang <sup>2</sup>	-	-	-	-	-	-	-
Z Xiaojiang <sup>2</sup>	-	-	-	-	-	-	-
J Haines	2,000,000	-	-	-	2,000,000	1,000,000	-
M Terry	1,000,000	-	-	-	1,000,000	500,000	-
Total	9,775,000	-	-	(25,000)	9,750,000	6,750,000	-

### Notes:

Number of shares held by Key Management Personnel

The number of ordinary shares in the Company during the 2018 reporting period held by each of the Group's Key Management Personnel, including their related parties, is set out below:

Name	Balance at start of year	Granted as remuneratione	Received on exercise	Other changes <sup>1</sup>	Held at the end of the reporting
D J Peters	-	-	-	-	-
P J Staveley <sup>2</sup>	550,000	-	-	-	550,000
G D English	-	-	-	-	-
M Chatfield <sup>2</sup>	1,308,914	-	-	-	1,308,914
Z Wang	-	-	-	-	-
Z Xiaojiang³	-	-	-	-	-
J Haines	-	-	-	-	-
M Terry	-	-	-	-	
Total	1,858,914	-	-	-	1,858,914

### Notes:

- <sup>1</sup> Other changes include purchases, sales or transfers during the financial year
- <sup>2</sup> M Chatfield and P Staveley both acquired shares under the SPP in July 2018.
- 3 Xiaojiang has an interest in 12,470,921 shares held by Crown Ascent Development Limited due to having a 25% interest in Crown. Date of change was 29 May 2018.

<sup>&</sup>lt;sup>1</sup> Mr Chatfield acquired 25,000 Listed Options in the May 2016 share placement which lapsed unexercised during the period.

<sup>&</sup>lt;sup>2</sup> Options that form part of Non-Executive Director remuneration package have been granted on a provisional basis subject to approval of shareholders in August 2018, and as such are not reported in this table.

**Loans to Key Management Personnel** 

At balance date, the Group does not have any outstanding receivables relating to loans to employees or Key Management Personnel.

**Related party transactions** 

During the reporting period:

Piper Alderman lawyers were paid \$82,909 (2017: \$78,015) for legal services rendered to the Group. Greg English is a partner at Piper Alderman lawyers;

ARK Energy Ltd had a service agreement in place with the Company for facilities and accounting services. Fees rendered to the Company were \$14,700 (2017: \$32,586), of which \$9,432.85 remans unpaid at the date of this report. Prior to joining the LCK Board, Mr Philip Staveley resigned on 5 December from being a director of ARK Energy Ltd prior to joining the LCK Board;

Investment Company Services Pty Ltd were paid \$60,116 (2017: \$Nil) for providing investor relations services to the Group. The party is related to Mr Peters, Executive Chairman. A market capitalisation performance fee is payable under the contract to a maximum value of \$500,000, less any fees earned, payable in shares. This fee is only payable if the average weighted share price exceeds \$0.30 for a consecutive 45 day period prior to 31 December 2018. The contract expires on 31 December 2018;

A related party incurred travel reimbursements totalling \$1,553. The related party, Allied Resources Partners Pty Ltd, is related to Mr Peters, Executive Chairman;

**End of audited remuneration report** 

# **Auditor's Independence**

Grant Thornton Audit Pty Ltd continues in office in accordance with Section 327 of the Corporations Act 2001.

The auditor has not been engaged during the year for any non-audit services which may have impaired the auditor's independence. The auditor's independence declaration for the year ended 30 June 2018 has been received and is included in this report.

Signed in accordance with a resolution of the Board.

D J Peters Director

Dated at Adelaide, South Australia this 22nd day of August 2018

# **Corporate Governance Statement**

The Board of Directors (the Board) of Leigh Creek Energy Limited (the Company) is committed to achieving and demonstrating the highest standard of Corporate Governance.

The Board guides the affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board has responsibility for the overall Corporate Governance of the Company including its strategic direction, establishment of goals for its management and monitoring the achievement of those goals.

The individual Directors recognise that their primary responsibility is to the owners of the Company, its shareholders, while simultaneously having regard for the interests of all stakeholders and the broader community.

The statement outlines the Company's Corporate Governance Practices in place during the financial year.

The Company's statement is made based on the ASX Corporate Governance Councils Corporate Governance Principles and Recommendations (3rd Edition).

Although the ASX Corporate Governance Council's Recommendations are not mandatory, under listing rule 4.10.3 companies are required to provide a statement disclosing the extent to which they have followed the recommendations in the reporting period, identifying any principles which have not been followed with reasons for not having done so.

The statement of revised principles and the Company's compliance with each principle are set out in the Company's website <a href="https://www.lcke.com.au">www.lcke.com.au</a>

## **Directors' Declaration**

- 1. In the opinion of the Directors of Leigh Creek Energy Limited:
  - a. The consolidated financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
    - i. Giving a true and fair view of the financial position as at 30 June 2018 and of the performance of the Group for the year ended on that date; and
    - ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - b. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- 2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2018.
- 3. Note 1 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the Board of Directors.

D J Peters

Director

Dated at Adelaide, South Australia this 22nd day of August 2018



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# **Auditor's Independence Declaration**

## To the Directors of Leigh Creek Energy Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Leigh Creek Energy Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton Audit Pty Ltd Chartered Accountants

I S Kemp

Partner - Audit & Assurance

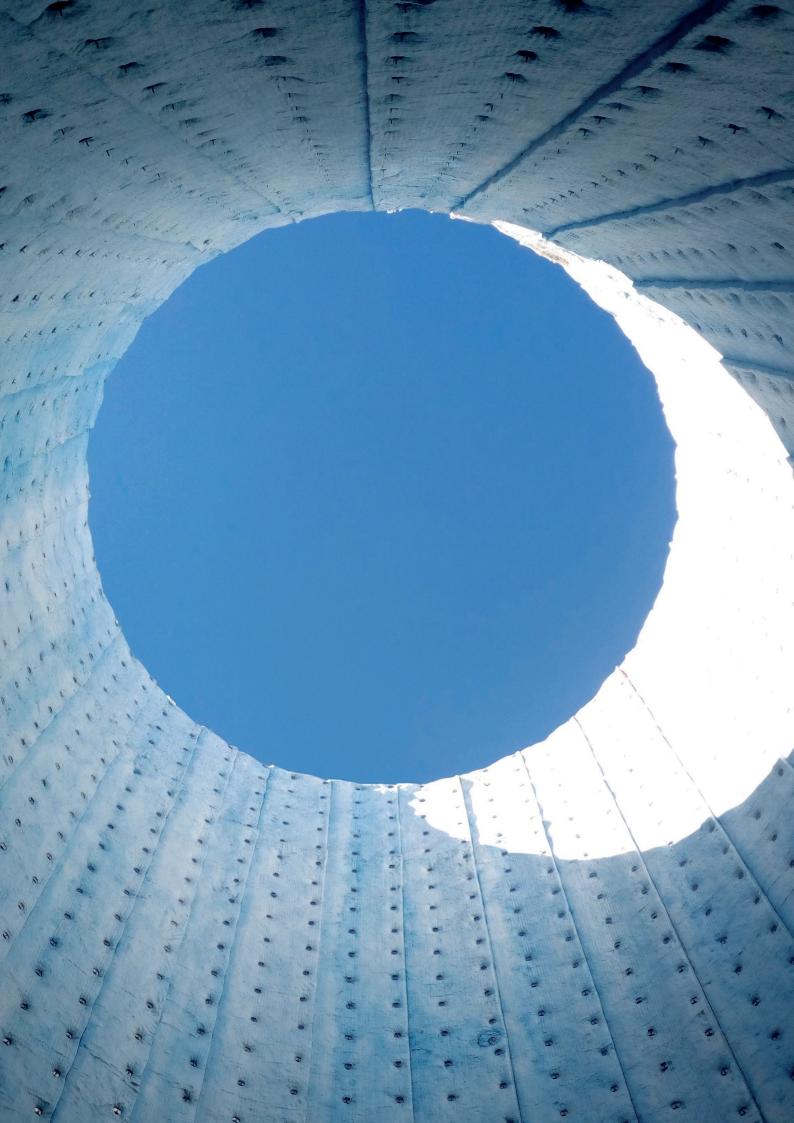
Adelaide, 22 August 2018

Grant Thornton Audit Pty Ltd ACN 130 913 594 a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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# **Financial Information**

# **Consolidated Statement Of Profit Or Loss And Other Comprehensive Income**

	Notes	2018 \$	2017 \$
Other revenue	2a	55,000	53,731
Other expenses	2b	(2,711,097)	(2,581,694)
Depreciation of property, plant and equipment		(39,951)	(35,251)
Employee benefits expense	11	(3,192,731)	(3,171,452)
		(5,888,779)	(5,734,666)
Finance income	3a	180,645	54,011
Finance costs	3b	(310,716)	(78,105)
Loss before income tax		(6,018,850)	(5,758,760)
Income tax benefit	4	-	-
Loss for the year after income tax		(6,018,850)	(5,758,760)
Total other comprehensive income		-	-
Total comprehensive (loss) for the year		(6,018,850)	(5,758,760)
Earnings per share			
Basic (cents per share)	20	(0.02)	(0.02)
Diluted (cents per share)	20	(0.02)	(0.02)

# **Consolidated Statement Of Financial Position**

	Notes	2018 \$	2017 \$
Assets			
Current			
Cash assets	5	9,323,648	8,757,787
Trade and other receivables	6	9,359,171	2,358,752
Other financial assets		142,434	-
Total Current Assets		18,825,253	11,116,539
Non-current			
Property, plant and equipment	7	282,658	220,720
Exploration and evaluation expenditure	8	16,400,151	5,985,725
Total Non-Current Assets		16,682,809	6,206,445
Total assets		35,508,062	17,322,984
Liabilities			
Current			
Trade and other payables	9	5,757,263	1,656,968
Borrowings	10	3,830,000	1,540,049
Employee entitlements	11	538,584	298,499
Total Current liabilities		10,125,847	3,495,516
Total liabilities		10,125,847	3,495,516
Net assets		25,382,215	13,827,468
Equity			
Equity attributable to owners of the parent:			
Share capital	12	58,327,054	41,100,034
Share option reserve	13	1,802,721	1,456,144
Retained losses		(34,747,560)	(28,728,710)
Total equity		25,382,215	13,827,468

# **Consolidated Statement Of Changes In Equity**

	Share capital \$	Retained losses \$	Share option reserve	Total equity \$
Balance 1 July 2017	41,100,034	(28,728,710)	1,456,144	13,827,468
Total comprehensive income				
Total profit or (loss)	-	(6,018,850)	-	(6,018,850)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(6,018,850)	-	(6,018,850)
Transactions with members in their capacity as owners:	:			
Issued of share capital (net of costs)	17,227,020	-	-	17,227,020
Employee share based payment options	-	-	346,577	346,577
Total transactions with owners	17,227,020	-	346,577	17,573,597
Balance at 30 June 2018	58,327,054	(34,747,560)	1,802,721	25,382,215
Balance 1 July 2016	32,361,720	(22,969,950)	1,395,284	10,787,054
Total comprehensive income				
Total profit or (loss)	-	(5,758,760)	-	(5,758,760)
Other comprehensive income	_	-	-	-
Total comprehensive income	-	(5,758,760)	-	(5,758,760)
Transactions with members in their capacity as owners:	:			
Issued of share capital (net of costs)	8,738,314	-	-	8,738,314
Employee share based payment options	_	-	60,860	60,860
Total transactions with owners	8,738,314	-	60,860	8,799,174
Balance at 30 June 2017	41,100,034	(28,728,710)	1,456,144	13,827,468

# **Consolidated Statement Of Cash Flows**

Notes	2018 \$	2017 \$
Cash flows from operating activities		
Sundry income received	55,000	20,000
Interest paid	-	(5,288)
Interest received	180,610	34,411
R&D rebates received	2,173,372	834,555
Payments to suppliers and employees	(5,543,770)	(5,458,337)
Net cash (used in) operating activities 16(b)	(3,134,788)	(4,574,659)
Cash flows from investing activities		
Purchase of property, plant & equipment	(110,637)	(126,955)
Proceeds from disposal of assets	-	29,063
Capitalised exploration costs	(15,394,967)	(5,611,122)
Net cash (used in) investing activities	(15,505,604)	(5,709,014)
Cash flow from financing activities		
Issue of shares	18,414,559	9,315,764
Share issue transaction costs	(1,187,540)	(577,450)
Proceeds from borrowings	4,170,000	1,610,000
Payment of borrowing costs	(240,766)	(94,800)
(Repayments) of borrowings	(1,950,000)	-
Net cash from / (used in) financing activities	19,206,253	10,253,514
Net change in cash and cash equivalents	565,861	(30,159)
Cash and cash equivalents, beginning of year	8,757,787	8,787,946
Cash and cash equivalents, end of year 16(a)	9,323,648	8,757,787

#### 1. Summary of significant accounting policies

The principal activity of the Group was pursuing the development of its Leigh Creek Energy Project.

a. General information and statement of compliance

The consolidated general purpose financial statements have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Leigh Creek Energy is a for-profit entity for the purposes of preparing the financial statements. The financial report has been presented in Australian dollars.

Leigh Creek Energy Limited is the Group's Ultimate Parent Company. Leigh Creek Energy Limited is a listed public company, incorporated and domiciled in Australia. The address of the registered office and its principal place of business is Level 11, 19 Grenfell Street, Adelaide SA 5000.

The consolidated financial statements for the year ended 30 June 2018 were approved and authorised for issue by the Board of Directors on 22nd August 2018.

#### b. Overall considerations

The consolidated financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

### c. Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 30 June 2018. The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a report date of 30 June. The controlled entities are disclosed in Note 17 to the financial statements.

All inter-company balances transactions and balances between Group companies are eliminated on consolidation. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

#### d. Changes in accounting policy

New and revised standards that are effective for these financial statements

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2017. Information on the more significant standards is presented below.

(i) AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation.

The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e., a revenue-based amortisation method might be appropriate) only in two (2) limited circumstances:

- a. The intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or
- b. When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The adoption of these amendments has not had a material impact on the Group.

## 1. Summary of significant accounting policies continued

(ii) AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 Presentation of Financial Statements

The Standard makes amendments arising from the IASB's Disclosure Initiative project. The amendments:

- clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- remove potentially unhelpful guidance in AASB 101 for identifying a significant accounting policy

The adoption of these amendments has not had a material impact on the Group.

(iii) AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs

This amendment inserts scope paragraphs into AASB 8 Operating Segments and AASB 133 Earnings per Share in place of application paragraph text in AASB 1057.

In July and August 2015, the AASB reissued AASB 8, AASB 133 and most of the Australian Accounting Standards that incorporate IFRSs to make editorial changes. The application paragraphs in the previous versions of AASB 8 and AASB 133 covered scope paragraphs that appear separately in the corresponding IFRS 8 and IAS 33. In moving those application paragraphs to AASB 1057 when AASB 8 and AASB 133 were reissued in August, the AASB inadvertently deleted the scope details from AASB 8 and AASB 133. This amending Standard puts the scope details into those Standards, and removes the related text from AASB 1057. There is no change to the requirements or the applicability of AASB 8 and AASB 133.

The adoption of these amendments has not had a material impact on the Group.

Accounting standards issued but not yet effective and not been early adopted by the Group

The accounting standards that have not been early adopted for the year ended 30 June 2018, but will be applicable to the Group in future reporting periods are detailed below. Apart from these standards, we have considered other accounting standards that will be applicable in future reporting periods, however they have been considered insignificant to the Group.

(iv) AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

This amendment alters AASB 107 Statement of Cash Flows to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

When this standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

#### 1. Summary of significant accounting policies continued

(v) AASB 9 Financial instruments (December 2014)

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- a. Financial assets that are debt instruments will be classified based on:
- (i) the objective of the entity's business model for managing the financial assets; and
- (ii) the characteristics of the contractual cash flows.
- b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- c. Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.
- d. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- e. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
  - the change attributable to changes in credit risk are presented in Other Comprehensive Income ('OCI')
  - the remaining change is presented in profit or loss

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

- classification and measurement of financial liabilities; and
- derecognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.

When this standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

(vi) AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions

This Standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments
- Share-based payment transactions with a net settlement feature for withholding tax obligations
- A modification to the terms and conditions of a sharebased payment that changes the classification of the transaction from cash-settled to equity-settled.

When this standard is first adopted for the year ending 30 June 2019, there will be no impact on the transactions and balances recognised in the financial statements.

(vii) AASB 16 Leases

- replaces AASB 117 Leases and some lease-related Interpretations;
- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases;
- provides new guidance on the application of the definition of lease and on sale and lease back accounting;
- largely retains the existing lessor accounting requirements in AASB 117; and
- requires new and different disclosures about leases

As this Standard will be first adopted for the year ending 30 June 2020, the company is yet to undertake a detailed assessment of the impact of AASB 16. Based on the company's preliminary assessment however, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020.

## 1. Summary of significant accounting policies continued

(viii) AASB 15 Revenue from Contracts with Customers

- replaces AASB 118 Revenue, AASB 111
   Construction Contracts and some revenue-related Interpretations:
  - establishes a new revenue recognition model
  - changes the basis for deciding whether revenue is to be recognised over time or at a point in time
  - provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing)
  - expands and improves disclosures about revenue

As this Standard will be first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

#### e. Impairment of assets

At each reporting date, the group reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

## f. Segment reporting

The Board has considered the requirements of AASB 8 Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board) in allocating resources and has concluded at this time that there are no separately identifiable segments.

#### g. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, unless the GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST. The net amount of GST recoverable from the Australian Tax Office is included with other receivables in the statement of financial position.

Cash flows are presented in the cash flow statement on a GST inclusive basis.

## h. Comparative figures

Unless otherwise required by an accounting standard comparative information is disclosed in respect of the previous corresponding period, including for narrative and descriptive information. To the extent that items are amended or reclassified comparative amounts are also amended or reclassified. Prior period errors are retrospectively corrected in the next financial report following discovery.

- 1. Summary of significant accounting policies continued
- ii. Significant management judgement in applying accounting

When preparing the financial statements, management undertake a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. The areas involving significant estimates and assumptions are listed below:

- Exploration and Evaluation Expenditure Note 8
   Judgement is required to ensure that the carrying value of Exploration and Evaluation assets does not exceed the recoverable amount. Factors considered in this judgement are:
  - a) the period for which the entity has the right to explore in the specific area has expired or will expire in the near future;
  - b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
  - c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities;
  - d) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Management has made a judgement that, given these factors, the balance of Exploration and Evaluation assets is not impaired.

• Share based payments – Note 11

The valuation for accounting purposes of Share Based Payments relies on a number of factors that cannot be accurately measured. These include:

- a) the volatility of the LCK share value;
- b) the probability that vesting conditions/milestones will be met;
- c) the probability that the employee will remain employed with the company until the expiry date of the options;
- d) the probability that the employee will exercise their options.

Final judgement about vesting of the options is retained by the Board. Management has assessed each of these factors and made judgements on what factors are used for the calculation.

# 2. Other revenue and expenses

Accounting policy – revenue and expenses recognition

Other revenue is recognised on an accruals basis and is recognised at the time the right to receive payment is established.

Other expenses represent costs incurred for the administration of the business. Costs relating to the project have been capitalised to Exploration and Evaluation expenditure (as shown in Note 8).

	2018 \$	2017 \$
a) Other revenue	<u> </u>	
Grants	55,000	20,000
Fair value to P&L (financial assets)	-	10,875
Disposal of fixed assets	-	22,856
Total other revenue	55,000	53,731
o) Other expenses		
Accounting and audit	164,948	142,343
Communications costs	52,292	54,905
Corporate advisory	574,330	371,302
Software & other	47,619	87,506
Consulting and legal expense	428,627	424,631
Insurance	110,704	71,553
Investor relations	259,169	331,176
Listing & registry fees	118,708	61,140
Occupancy expense	358,753	449,661
Printing and office supplies	52,840	27,828
Travel and accommodation	298,503	346,772
Sundry	244,604	212,877
Total other expenses	2,711,097	2,581,694

## 3. Finance income and finance costs

Accounting policy - Finance income and finance costs

Finance income includes interest revenue which is recognised on an accruals basis taking into account the interest rates applicable. It is recognised at the time the right to receive payment is established.

Finance costs include interest paid and amortised borrowing costs from financing arrangements. Costs incurred in relation to the arrangement are amortised using the effective interest method, over the life of the loan.

	2018 \$	2017 \$
a) Finance income		
Interest earned	180,645	54,011
Total finance income	180,645	54,011
b) Finance costs		
Interest paid	-	5,288
Amortised borrowing costs	310,716	72,817
Total finance costs	310,716	78,105

#### 4. Income tax

Accounting policy - income taxes

Deferred taxes are not recognised in the accounts. As the Group has significant carried forward tax losses, it does not have sufficient taxable temporary differences which will result in taxable amounts against which the unused tax losses can be utilised.

The amount of benefits which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the condition of deductibility imposed by the law.

Tax consolidation

Leigh Creek Energy Limited and its wholly owned Australian subsidiaries are part of a tax-consolidated group under Australian taxation law.

	2018 \$	2017 \$
a) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss before income tax	(6,018,850)	(5,758,760)
Prima facie tax (benefit) on loss before income tax at 27.5% (2017: 27.5%)	(1,655,184)	(1,583,659)
Permanent differences:		
Entertainment non deductible	16,687	10,986
Share based payments	95,309	16,736
Fair value adjustment for investments	-	(2,985)
Movement in unrecognised tax assets and liabilities	666,949	(386,139)
Tax loss not recognisable	804,335	1,426,033
Under/(Over) provided in prior year	71,904	519,028
Aggregate income tax expense	-	-
b) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised		
Revenue losses	16,775,866	15,819,969
Capital losses	50,729	50,729

The Group considers that in the future it will be generating taxable income to utilise carried forward tax losses, however, it does not meet the recognition criteria. Additionally, the carried forward tax losses can only be utilised in the future when taxable income is being generated, if the continuity of ownership test is passed, or failing that, the same business test is passed.

## 5. Cash assets

Accounting policy – Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call and term deposits with banks.

## i) Cash and cash equivalents

	2018 \$	2017 \$
Bank balances	1,087,392	307,787
Term deposits <sup>12</sup>	8,236,256	8,450,000
Cash and cash equivalents in the statement of cashflows	9,323,648	8,757,787

## Notes:

# 6. Trade and other receivables

Accounting policy – Trade and other receivables

Trade receivables are recognised initially at fair value. At balance date, no receivables were considered to be outstanding or impaired.

	2018 \$	2017 \$
Trade debtors	9,433	26,400
GST recoverable	250,165	127,032
Prepayments	51,697	23,142
R&D tax incentive receivable	9,010,220	2,135,457
Other debtors	37,656	46,721
Total Trade and other receivables	9,359,171	2,358,752

<sup>&</sup>lt;sup>1</sup> Includes \$480,138 of restricted cash to support a bond and credit card facility.

<sup>&</sup>lt;sup>2</sup> Term deposits comprise cash balances with an original maturity of less than three months.

## 7. Property, plant and equipment

Accounting policy - Property, plant and equipment

Each class of property, plant and equipment is carried at cost, where applicable, less any accumulated depreciation and impairment losses.

## i) Plant and equipment

Plant and equipment are shown at historical cost less accumulated depreciation and accumulated impairment. Cost includes expenditure that is directly attributable to the acquisition of the assets.

The carrying amount of plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

#### ii) Depreciation

Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

Plant and equipment	5-33%
Office equipment	10-50%
Motor vehicles	15%
Leasehold improvement	45%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets (including impairment provision) and are recognised in the profit or loss with Other Income or Other Expenses.

	2018 \$	2017 \$
Cost		
Balance at 1 July 2017	506,172	515,695
Additions	117,894	126,956
Transfers	-	115
Disposals	-	(136,594)
Balance at 30 June 2018	624,066	506,172
Accumulated depreciation & impairment		
Balance at 1 July 2017	285,452	303,470
Impairment balance	-	99,285
Depreciation	56,016	39,873
Transfers	-	115
Impairment movement	-	(55,968)
Disposals	(60)	(101,323)
Balance at 30 June 2018	341,408	285,452
Carrying amounts		
At 1 July 2017	220,720	-
At 30 June 2018	282,658	220,720

## 8. Exploration and evaluation expenditure

Accounting policy - Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that right of tenure is current and those costs are expected to be recouped through the successful development of the area (or, alternatively by its sale) or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and operations in relation to the area are continuing.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

Accumulated costs, in relation to an abandoned area, are written off in full against profit in the period in which the decision to abandon the area is made.

	2018 \$	2017 \$
Balance at opening	5,985,725	2,450,480
Licence fees	8,748	7,198
Costs capitalised for Feasibility Studies	916,489	503,987
Costs capitalised for LCEP	18,537,324	5,950,201
Less R&D tax concession rebates	(9,048,135)	(2,926,141)
Total exploration and evaluation expenditure	16,400,151	5,985,725

During the year the Company applied for R&D Tax Incentives through AusIndustry in relation to eligible research expenditure incurred during 2017/18 for the Leigh Creek Energy Project. The tax incentive received during the year is a refundable tax credit and has been credited to Exploration and Evaluation capitalised expenditure (\$2,173,372). Additionally, the Company has booked a receivable (\$9,010,220) in relation to eligible R&D expenditure for the period up to and including 30 June 2018 which has been reviewed externally to ensure it is in accordance with the relevant criteria.

## 9. Trade and other payables

Trade and other payables consist of the following:

	2018 \$	2017 \$
Trade payables	1,410,581	1,036,393
Other payables	53,594	45,942
Accruals	4,293,088	574,633
Total Trade and other payables	5,757,263	1,656,968

## 10. Borrowings

Accounting policy – Borrowings

Borrowings are recognised initially at fair value less attributable transaction and finance costs.

Subsequent to initial recognition, Borrowings and loans are stated at amortised cost, with any difference between cost and redemption value being recognised in the profit or loss over the period of the loan on an effective interest basis. Loans with a determinable payment due less than twelve months from reporting date are classified as current liabilities.

Transaction and finance costs include ancillary costs incurred in connection with the arrangement of loans, interest payable and facility line fees payable on the loan.

	2018 \$	2017 \$
Current		
R&D working capital facility	3,830,000	1,540,049
Total loans	3,830,000	1,540,049
Loans		
R&D working capital facility – available	6,500,000	2,000,000
R&D working capital facility – undrawn	(2,670,000)	(390,000)
Loans - drawn	3,830,000	1,610,000
Less: unamortised transaction costs	-	(69,951)
Carrying amount at 30 June 2018	3,830,000	1,540,049

The Company has a working capital facility with the Commonwealth Bank of Australia (CBA) to bring forward access to refundable R&D tax concessions. This has provided LCK with the flexibility to bring forward its tax offsets by providing a draw down on eligible expenditure and for CBA to be repaid from the company's taxation return rebate. In June 2018 LCK extended the Facility to December 2019 and the facility limit was increased to \$10.5m. Following receipt of the 2017/18 ATO rebate and clean down of the Facility the limit will decrease to \$3.6m to match anticipated 2018/19 tax rebates. A total of \$3,830,000 was drawn under the extended facility as at 30 June 2018. The receivable due from the R&D rebate is \$9,010,220 for the year.

## 11. Employee remuneration

Employee benefits expense

	2018 \$	2017 \$
Wages, salaries (inc. on-costs)	2,651,217	2,890,950
Superannuation	194,937	219,642
Share based payments	346,577	60,860
Total employee benefit expense	3,192,731	3,171,452

Under the Company's Accounting for Exploration policy, labour costs relating to the LCEP are capitalised. The total staff cost was \$5,759,766 (2017: \$5,208,931).

Share based employee remuneration

Accounting policy - Share based payment plans

Share based compensation benefits are provided to employees of the Company. The fair value of the options granted under the plan is recognised as an employee benefit expense with a corresponding increase in equity (Share Option Reserve). The fair value is measured at grant date and recognised over the period during which the employees become entitled to the underlying options.

The fair value at issue date is calculated using the Trinomial option pricing model that takes into account the share price at issue date, the exercise price, the term until expiry, estimate of implied volatility, the vesting and performance criteria and the non-tradeable nature of the option. At each balance sheet date, the Company revises its estimate of the number of options that are expected to become exercisable.

## (i) Number of options issued to employees during the year

	2018	2017
Outstanding at beginning of the year	16,445,000	14,250,000
Forfeited	(728,750)	(2,000,000)
Issued <sup>1</sup>	636,000	4,195,000
Exercised	-	-
	16,352,250	16,445,000

#### Notes

<sup>&</sup>lt;sup>1</sup> Excludes 4,000,000 director options and 1,000,000 company secretary options (related party) granted 18th April 2018, with issue subject to shareholder approval on 22nd August 2018, expensed during the period in accordance with accounting standard.

## 11. Employee Remuneration *continued*

## (ii) Valuation assumptions

	Plan 1	Plan 2	Plan 3
Grant date	15 October 2015	1 December 2015	1 December 2015
Number issued	2,000,000	2,000,0000	10,250,000
Share price at grant date	\$0.17	\$0.23	\$0.23
Volatility (average) <sup>5</sup>	70%	70%	70%
Fair value at issue date	\$0.08	\$0.02	\$0.04
Exercise price	\$0.212 <sup>1</sup> , \$0.25 <sup>2</sup>	\$1.50	\$0.30
Exercisable from	22 October 2015	31 July 2016 <sup>3</sup>	31 July 2016 <sup>3</sup>
Exercisable to	14 October 2020 <sup>4</sup>	31 July 2020	30 November 2020

## Notes:

- <sup>1</sup> Exercise price for Tranche 1 was the greater of \$0.20 and 10% premium to the 5 day VWAP up to 26 May 2015.
- <sup>2</sup> Exercise price for Tranche 2 was the greater of \$0.25 and 20% premium to the 5 day VWAP up to 26 May 2015.
- <sup>3</sup> Options vest at 25% per year on 31 July 2016, 31 July 2017, 31 July 2018 and 31 July 2019 if vesting conditions (milestones) are achieved.
- <sup>4</sup> Tranche 1 expiry date is 14 October 2019, and Tranche 2 expiry date is 14 October 2020.
- <sup>5</sup> A volatility curve was used for calculations.

	Plan 4	Plan 5	Plan 6
Grant date	11 July 2016	4 October 2016	10 July 2017
Number issued	195,000	4,000,000	636,000
Share price at grant date	\$0.19	\$0.13	\$0.11
Volatility (average) <sup>3</sup>	70%	70%	70%
Fair value at issue date	\$0.04	\$0.03	\$0.02
Exercise price	\$0.49, \$0.30	\$0.35, \$0.45	\$0.30
Exercisable from	11 July 2016 <sup>1</sup>	10 October 2016	31 July 2018 <sup>2</sup>
Exercisable to	30 November 2020	10 October 2021	30 November 2020

## Notes:

- <sup>1</sup> Options vest at 25% per year on 31 July 2016, 31 July 2017, 31 July 2018 and 31 July 2019 if vesting conditions (milestones) are achieved
- <sup>2</sup> Options vest at 33% per year on 31 July 2018, 31 July 2019 and 31 July 2020 if vesting conditions are achieved.
- <sup>3</sup> A volatility curve was used for calculations.

#### 11. Employee Remuneration continued

#### **Employee benefits**

Accounting policy - Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to reporting date. These benefits include wages, salaries and annual leave. Where these benefits are expected to be settled within 12 months of the reporting date, they are measured at the amounts expected to be paid when the liabilities are settled. The provision has been recognised at the undiscounted amount expected to be paid.

In relation to employee benefits arising for employees directly involved in the exploration project, these indirect costs have been capitalised to the project.

	2018 \$	2017 \$
Liability for annual leave	288,019	198,569
Provision for bonus	250,565	99,930
Total employee benefit liability	538,584	298,499

## 12. Issued Capital

Accounting policy - Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares is shown in equity as a deduction from the proceeds.

The company has granted unlisted options to employees in respect of their employment contracts. The fair value of the options granted is recognised as an employee benefits expense with a corresponding increase in equity (Share Option Reserve). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to exercise the option. Fair value is determined by the use of a Trinomial option pricing model.

## **Ordinary shares**

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders' meeting each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. All issued shares are fully paid. All unissued shares are ordinary shares of the Company.

	2018 \$	2017 \$
452,780,603 (2017 : 332,368,051)		
Ordinary shares	61,423,690	43,009,130
Share issue costs	(3,096,636)	(1,909,096)
Total issued capital	58,327,054	41,100,034

Additional shares were issued during 2018 in relation to capital raising activities. In March 2017, Leigh Creek Energy signed a subscription agreement with China New Energy Group Limited (CNE) for the issue of 136.3 million Leigh Creek Energy Limited Ordinary Shares in three tranches at an average issue price of \$0.147 per share. On 27 October 2017, China New Energy Group Limited (CNE) completed the final tranche of their \$20 million investment in the Company increasing their interest to 32.78% of capital on issue. CNE are a related party. Additionally, the Company has placed 36.9 million shares with sophisticated and professional investors.

## 12. Issued Capital *continued*

Detailed table of capital issued during the year

Type of share issue	Date of issue	No of ordinary shares on issue	Issue price \$	Share capital \$
Opening balance 1 July 2017		332,368,051		41,100,034
Share issue	16 August 2017	17,000,000	\$0.15	2,550,000
Share issue	27 October 2017	66,544,905	\$0.15	9,981,736
Share issue	25 June 2018	36,867,647	\$0.16	5,882,824
Share issue costs				(1,187,540)
Issued capital		452,780,603		58,327,054

## **Unlisted options**

at the end of the financial year, unissued shares of the Group under option are:

Expiry date	Exercise price	Number of shares
31 October 2018	\$0.20	1,500,000
31 October 2018	\$0.22	1,500,000
31 October 2018	\$0.24	1,500,000
31 October 2018	\$0.26	1,500,000
11 May 2019	\$0.30	1,500,000
14 October 2019	\$0.212	1,000,000
14 October 2020	\$0.25	1,000,000
31 July 2020	\$1.50	1,250,000
30 November 2020	\$0.30	8,655,000
30 November 2020	\$0.49	141,250
8 May 2021	\$0.30	800,000
10 October 2021	\$0.35	2,000,000
10 October 2021	\$0.45	2,000,000
30 November 2020	\$0.30	306,000
Total		24,652,250

Options granted under the Employee Share Option Plan will typically expire on the earlier of the expiry date or termination of the employee's employment (unless the employee is a retiring director). For employees that are made redundant, their future unvested tranches are still able to vest (if conditions are met).

## **Listed options**

A number of listed options (17,687,463 at an exercise price of \$0.50) were issued as part of the prospectus for the capital raising finalised in May 2016. These options lapsed unexercised on the 6th June 2018 and as such there are nil listed options over shares of the Group at the end of the financial year.

#### Capital management

Management objectives when managing capital are to ensure that the Group can fund the development of its operations.

The Group manages the capital structure and makes adjustments to it in light of the forecast cash requirements of the development programme. To that end, internal capital rationing is complemented by capital raising activities as required to ensure funding for development activities is in place.

There are no externally imposed capital requirements.

#### 13. Reserves

**Accounting policy - Reserves** 

The share option reserve is used to recognise the fair value of options granted to employees and consultants but not exercised. Upon exercise of the options, the proceeds are allocated to share capital.

	2018 \$	2017 \$
Share option reserve	1,802,721	1,456,144
Total reserves	1,802,721	1,456,144

A breakdown of the share option reserve is as follows1:

	No of Options	2018 \$
Directors	6,750,000	247,314
Employees	5,886,000	507,644
Former employees	3,716,250	358,845
Consultants	8,300,000	688,918
Total	24,652,250	1,802,721

## Notes:

## 14. Commitments for expenditure

Accounting policy - operating leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. The Company does not have any leases over property, plant or equipment where lease arrangements would be classed as finance leases.

	2018 \$	2017 \$
Operating lease commitment		
Not longer than 1 year	249,261	296,687
Longer than 1 year and not longer than 5 years	12,529	31,043

The Group has no contingent liabilities at the year end.

Accounting policy - capital commitments

Capital commitments relates to expenditure commitments for the Leigh Creek Energy Project (LCEP) outstanding at balance date.

	2018 \$	2017 \$
Leigh Creek Energy Project	1,037,042	1,344,730

<sup>&</sup>lt;sup>1</sup> Director and employee components include expense related to 4,000,000 director options and 1,000,000 company secretary options (related party) granted 18th April 2018, with issue subject to shareholder approval on 22nd August 2018, expensed during the period in accordance with accounting standard.

#### 14 Commitments for expenditure *continued*

The company held bank guarantees with the Minister for Mineral Resources and Energy of \$184,000 dated 3 January 2018, and \$170,000 dated 7 May 2018, the Department of State Development of \$50,000 dated 13 July 2018, and Knight Frank of \$69,803 dated 7 September 2017. Under the terms of tenement registration and renewal, tenements have commitments to work requirements. The commitment to work requirements at Leigh Creek is included above.

There are no other commitments at balance date for expenditure by the Group.

#### 15. Financial assets and liabilities

Accounting policy - financial assets & liabilities

#### Recognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instruments, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

## Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in the profit or loss.

#### **Impairment**

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the profit or loss.

## Categories of financial assets and liabilities

The carrying amount of financial assets and liabilities in each category are as follows:

Financial assets	Notes	Assets at fair value through profit or loss	Financial assets at amortised cost	Total
30 June 2018				
Trade and other receivables		-	9,359,171	9,359,171
Cash and cash equivalents	5	-	9,323,648	9,323,648
		-	18,682,819	18,682,819

Financial liabilities	Notes	Designated at fair value through profit or loss		Total
30 June 2018				
Current borrowings	10	-	3,830,000	3,830,000
Trade and other payables	9	-	5,757,263	5,757,263
		-	9,587,263	9,587,263

## 15. Financial assets and liabilities continued

Categories of financial assets and liabilities continued

Financial assets	Notes	Assets at fair value through profit or loss	Financial assets at amortised cost	Total
30 June 2017				
Trade and other receivables		-	2,358,752	2,358,752
Cash and cash equivalents	5	-	8,757,787	8,757,787
		-	11,116,539	11,116,539

Financial liabilities	Notes	Designated at fair value through profit or loss	Other liabilities	Total
30 June 2017				
Current borrowings	10	-	1,610,000	1,610,000
Trade and other payables	9	-	1,538,405	1,538,405
		-	3,148,405	3,148,405

#### Measurement

Financial assets at fair value through profit and loss (FVTPL)

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost.

#### i. Treasury risk management

The risk management of treasury functions is managed by the Audit and Risk Committee.

#### ii. Finance risks

The Group's financial instruments are exposed to a variety of financial risks, being Market risk (Interest rate and Price risk), Credit risk and Liquidity risk. The Group operates mainly in Australia and as such is not subject to foreign exchange risk.

#### Interest rate risi

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates on classes of financial assets and liabilities, is summarised in the table above.

Sensitivity: At June 30, 2018, if interest rates on cash and term deposits had changed by -/+ 10 basis points from the year end rates with all other variables held constant post tax loss and total equity would have been \$19,926 more/less as a result of lower/higher interest income.

At June 30, 2018, if interest rates on borrowings had changed by -/+ 10 basis points from the year end rates with all other variables held constant post tax loss and total equity would have been \$944 more/ less as a result of lower/higher interest expense.

#### Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligation that could lead to a financial loss to the Group. The Group's maximum exposure to credit risk is its cash and cash equivalents and receivables as noted in the table above. The group manages its credit risk by depositing with reputable licenced banks.

## 15. Financial assets and liabilities continued

ii. Finance risks continued

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate sources of funding are available.

Maturity of the group's financial liabilities is within 1 year.

#### 16. Notes to the Statement of Cash Flows

**Reconciliation of cash** 

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2018 \$	2017 \$
Bank balances and short term deposits	9,323,648	8,757,787

The weighted average effective interest rate on bank deposits is 1.36% (2017: 1.88%). All deposits are for less than 12 months.

Reconciliation of cash flow from operations with loss after tax

	2018 \$	2017 \$
Loss after income tax	(6,018,850)	(5,758,760)
Cash flows excluded from loss attributable to operating activities:		
Non-cash flows in operating loss		
Depreciation expense	39,951	35,251
Share based payments	346,577	60,860
Impairment change	-	(55,968)
Fair value assets change	-	(10,875)
Change in assets and liabilities		
Decrease/(Increase) in receivables / prepayments	(1,905,283)	(13,407)
Increase/(Decrease) in payables	4,162,733	994,260
Increase/(Decrease) in provisions	240,084	173,980
Net Cash (used in) / provided by operating activities	(3,134,788)	(4,574,659)

# 17. Parent entity disclosures

Investment in controlled entities

Entity	Country of incorporation	Class of share	Interest held	
			2018	2017
Bonanza Gold Pty Ltd	Australia	Ordinary	100%	100%
Leigh Creek Operations Pty Ltd	Australia	Ordinary	100%	100%

Parent entity information

	2018 \$	2017 \$
Parent Entity		
Asset		
Current assets	18,086,987	10,953,732
Non-current assets	11,560,147	4,407,387
Total assets	29,647,134	15,361,119
Liabilities		
Current liabilities	4,996,516	2,265,234
Non-current liabilities	-	-
Total liabilities	4,996,516	2,265,234
Equity		
Issued capital	56,717,813	65,640,664
Share option reserve	1,802,721	1,618,294
Accumulated losses	(33,869,916)	(54,163,073)
Shareholder equity	24,650,618	13,095,885
Financial performance		
Profit (loss) for the year	(6,018,063)	(5,758,760)
Other comprehensive income	-	-
Total comprehensive income	(6,018,063)	(5,758,760)

The parent entity has not entered into a deed of cross guarantee nor are there any contingent liabilities at the year end.

## 18. Related party transactions

Transactions with key management personnel compensation

Key management of the Group are the executive members of the Group's Board of Directors and members of the management team. Key management personnel remuneration includes the following expenses:

	2018 \$	2017 \$
Total short term employee benefits	1,477,356	1,357,635
Total post-employment benefits	121,996	445,137
Share based payments	267,525	(22,816)
Total Remuneration	1,866,877	1,779,956

The amounts disclosed in the table are the amounts recognised as an expense during the reporting year.

Other transactions with key management personnel

Transactions between related parties are on normal commercial terms and conditions no more favourable than those to other parties, unless otherwise stated:

- Piper Alderman lawyers were paid \$82,909 (2017: \$78,015) for legal services rendered to the Group.
   Greg English is a partner at Piper Alderman lawyers;
- ii) ARK Energy Ltd had a service agreement in place with the Company for facilities and accounting services. Fees rendered to the Company were \$14,700 (2017: \$32,586). Mr Philip Staveley resigned on 5 December from being a director of ARK Energy Ltd;
- iii) Investment Company Services Pty Ltd were paid \$60,116 (2017: \$Nil) for providing investor relations services to the Group. The party is related to Mr Peters, Executive Chairman. A market capitalisation performance fee is payable under the contract to a maximum value of \$500,000, less any fees earned, payable in shares. This fee is only payable if the average weighted share price of \$0.30 for 45 days is exceeded. The contract expires on 31 December 2018;
- iv) A related party incurred travel reimbursements totalling \$1,553. The related party, Allied Resources Partners Pty Ltd, is related to Mr Peters, Executive Chairman.

#### 19. Auditor's remuneration

During the year the following fees were paid or payable for services provided by the Auditor of the Group:

	2018 \$	2017 \$
Auditing and review services	43, 856	44,937
Other services	55,750	-

During the year, Grant Thornton Audit Pty Ltd, the Company's auditors, did undertake a review of the Employee Share Option Plan in addition to their statutory audit duties. Grant Thornton Corporate Finance Pty Ltd (Sydney) prepared an Independent Expert Report in July 2017.

## 20. Earnings per share

Accounting policy - Earnings per share

#### i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit (loss) attributable to equity holders excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year.

## ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of shares assuming conversion of all dilutive potential ordinary shares.

The calculation of basic loss per share at 30 June 2018 was based on the loss attributable to ordinary equity holders of \$6,018,850 (2017: \$5,758,760) and a weighted average number of ordinary shares outstanding during the 12 months of 392,533,489 (2017: 279,894,514).

The calculation of diluted loss per share at 30 June 2018 is the same as basic diluted loss per share. In accordance with AASB 133 Earning per share, as potential ordinary shares may result in a situation where their conversion results in a decrease in the loss per share, no dilutive effect has been taken into account. Potential ordinary shares relating to listed and unlisted options at 30 June 2018 totalled 24,652,250 (2017: 42,432,463).

	2018 \$	2017 \$
Loss used to calculate basic EPS	(6,018,850)	(5,758,760)
Basic earnings per share — cents per share	(0.02)	(0.02)
Diluted earnings per share — cents per share	(0.02)	(0.02)
Weighted average number of shares used as denominator		
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	392,533,489	279,894,514
Shares deemed to be issued for no consideration in respect of share based payments	24,652,500	24,745,000
Listed options issued for no consideration	-	17,687,463
Weighted average number of shares used in diluted earnings per share	417,185,739	322,326,977

## 21. Matters subsequent to the end of the year

A total of 9,510,000 new ordinary shares were issued to participating shareholders at A\$0.16 per Share under the SPP on 20 July 2018. The Company reserved the right to place the unsubscribed balance of the SPP.

- 1. On 30 July 2018 a total of 9,240,000 new ordinary shares were issued to institutional and sophisticated investors who are primarily existing shareholders of the Company at A\$0.16 per Share, to place the shortfall from the SPP.
- 2. Employee Share Options were issued on 18 July 2018 total of 5,790,000 options issued at an exercise price of \$0.251, expiring on 16 July 2022.
- 3. A General Meeting was held on 22 August 2018 to approve a placement to CNE of 27,126,447 shares at 16 cents per share to raise \$4.34m. Upon approval and placement, CNE return to its percentage shareholding pre-capital raising of 32.78%. In addition, shareholders were asked to approve the issue of 4,000,000 unlisted options to directors and 1,000,000 to the Company Secretary at an exercise price of \$0.35 expiring on 17 April 2023, and 5,000,000 unlisted options to executive directors at an exercise price of \$0.246 expiring on 3 July 2022.

## 22. Company details

The registered office and principal place of business is:

Leigh Creek Energy Limited Level 11, 19 Grenfell Street Adelaide, South Australia 5000



Grant Thornton Audit Pty Ltd Grant Thornton House Level 3 170 Frome Street Adelaide, SA 5000

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# **Independent Auditor's Report**

To the Members of Leigh Creek Energy Limited

Report on the audit of the financial report

#### Opinion

We have audited the financial report of Leigh Creek Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the Corporations Regulations 2001.

#### **Basis for opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Key audit matter

#### How our audit addressed the key audit matter

#### Exploration and evaluation assets - Note 8

At 30 June 2018, the carrying value of exploration and evaluation assets was \$16,400,151.

In accordance with AASB 6 Exploration for and Evaluation of Mineral Resources, the Group is required to assess at each reporting date if there are any triggers for impairment which may suggest the carrying value is in excess of the recoverable value.

The process undertaken by management to assess whether there are any impairment triggers in each area of interest involves an element of management judgement.

This area is a key audit matter due to the significant judgement involved in determining the existence of impairment triggers.

Our procedures included, amongst others:

- obtaining the management reconciliation of capitalised exploration and evaluation expenditure and agreeing to the general ledger;
- reviewing management's area of interest considerations against AASB 6;
- conducting a detailed review of management's assessment of trigger events prepared in accordance with AASB 6 including;
  - tracing projects to exploration licenses and third party confirmations to determine whether a right of tenure existed;
  - enquiry of management regarding their intentions to carry out exploration and evaluation activity in the relevant exploration area, including review of management's budgeted expenditure;
  - understanding whether any data exists to suggest that the carrying value of these exploration and evaluation assets are unlikely to be recovered through development or sale;
- evaluating the competence, capabilities and objectivity of management's experts in the evaluation of potential impairment triggers; and
- assessing the appropriateness of the related financial statement disclosures.

## Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

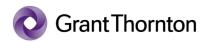
Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the Directors' for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.



In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: <a href="http://www.auasb.gov.au/auditors">http://www.auasb.gov.au/auditors</a> responsibilities/ar1.pdf. This description forms part of our auditor's report.

## Report on the remuneration report

#### Opinion on the remuneration report

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2018. In our opinion, the Remuneration Report of Leigh Creek Energy Limited, for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

#### Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

GRANT THORNTON AUDIT PTY LTD

**Chartered Accountants** 

Partner - Audit & Assurance

Adelaide, 22 August 2018

IS Kemp

# **Shareholder Information**

## Substantial shareholders at August 7, 2018

Name	Fully paid shares	Ordinary shares %	Options	Otions %
China New Energy Group Limited	136,333,334	28.91	-	-

# Distribution of shareholdings at 7 August 2018

Number of security holders by size of holding:

Range	Total holders shares	Number of shares	Total holders listed options	Number of listed options
1 – 1,000	444	222,928	-	-
1,001 – 5,000	698	1,984,107	-	-
5,001 – 10,000	449	3,590,744	-	-
10,001 — 100,000	1,089	40,829,983	-	-
100,001 and over	443	424,902,841	-	-
Total	3,123	471,530,603	-	-

The issued capital of the Company is fully paid ordinary shares (entitling the holders to participate in dividends and proceeds on winding up of the Company in proportion to the number of shares held) and listed options. On a show of hands every holder of the shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share counts as one vote.

At 7 August 2018 a marketable parcel constituted 3,030 shares. The number of shareholders holding less than a marketable parcel was 881 (1,105,161 shares).

# Twenty largest shareholders at August 7, 2018

Name	Fully paid ordinary shares	% of issued capital
China New Energy Group Limited	136,333,334	28.91
Citic Australia Pty Ltd	17,242,855	3.66
Mr George Andrew Raftopulos $+$ Mrs Elizabeth Athena Raftopulos $<$ The Omega Super A/C $>$	12,650,090	2.68
Crown Ascent Development Limited	12,470,921	2.64
HSBC Custody Nominees (Australia) Limited - A/C2	9,129,390	1.94
Mr David Shearwood + Mr Harry Shearwood < D K Shearwood Diy S/F A/C>	8,702,427	1.85
Rubi Holdings Pty Ltd < John Rubino S/F A/C>	7,500,000	1.59
One Design & Skiff Sails Pty Ltd < I W Brown Super Fund A/C>	5,260,887	1.12
Mr Bruce Warrington Holman	4,536,539	0.96
River Property Investments Pty Ltd	3,940,000	0.84
Littlejohn Embrey Engineering Pty Ltd	3,826,598	0.81
Mr Michael Duligal	3,671,021	0.78
J P Morgan Nominees Australia Limited	3,559,644	0.75
Martin & Alison Cromme Pty Ltd < Cromme Superfund A/C>	3,554,450	0.75
Ms Nichola Marguerite Clutterbuck + Ms Nell Marguerite Wharton <wharton a="" c="" f="" family="" s=""></wharton>	2,718,029	0.58
Mr Bruce Warrington Holman + Mrs Amanda Louise Holman < Holman Home Des S/F A/C>	2,715,497	0.58
Bart Properties Pty Ltd <scott a="" c="" family="" flynn=""></scott>	2,666,666	0.57
Mrs Amanda Holman	2,558,673	0.54
Slade Technologies Pty Ltd < Embrey Family S/F A/C>	2,530,750	0.54
Mr Nicholas James Redpath	2,528,999	0.54
Totals top 20	248,096,770	52.62
Total remaining holders balance	223,433,833	47.38

Unissued equity securities	Number
Unlisted options	23,723,500

# Securities exchange

The Company is listed on the Australian Securities Exchange.

# Notes

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# **Corporate Directory**

## **Directors**

Daniel J Peters	Executive Chairman
Phillip Staveley	Managing Director
Gregory D English	Non-Executive Director
Murray K Chatfield	Non-Executive Director
Zhe Wang	Non-Executive Director
Zheng Xiaojiang	Non-Executive Director

## **Company Secretary**

Jordan Mehrtens

## **Registered & Principal Business Office**

Level 11, 19 Grenfell Street Adelaide, South Australia, 5000

#### Rankers

Commonwealth Bank of Australia 96 King William Street Adelaide, South Australia, 5000

## **Principal Lawyer**

Piper Alderman Level 16, 70 Franklin Street Adelaide, South Australia, 5000

#### **Auditors**

Grant Thornton Audit Pty Ltd Level 3, 170 Frome Street Adelaide, South Australia, 5000

## **Share Registrar**

Computershare Registry Services Pty Ltd Level 5, 115 Grenfell Street Adelaide, South Australia, 5000

Investor enquiries: 1300 556 161 International: +61 3 9415 4000

## **Leigh Creek Energy Limited**

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