

17 October 2018

ASX ANNOUNCEMENT (ASX:LCK)

Quarterly report for the 3 months to 30 September 2018

Highlights

- ✓ **First Syngas – PCD began operations on 10 October 2018**
- ✓ **China Communications Construction Company Ltd engagement initiated**
- ✓ **Positive outcome of legal proceedings**
- ✓ **Share Purchase Plan shortfall successfully placed**

Leigh Creek Energy Limited (“LCK”, or “the Company”) is pleased to provide its shareholders and the market with an update on the development of the Leigh Creek Energy Project (LCEP) in South Australia for the three months to 30 September 2018. This quarter has been an extremely busy, eventful and challenging quarter.



LCEP First Syngas Production Facility

First Syngas

The Leigh Creek Energy Project (LCEP) Pre-Commercial Demonstration stage (PCD) commenced initiation on 10 October 2018. This represents a major milestone event for the Company, and a major de-risking and re-rating event for capital markets.

The PCD will be operated for up to 90 days and will provide information for the development of the commercial project and demonstrate that LCK can operate the ISG gasifier safely and in an environmentally responsible manner.

Since the Company commenced initiation, it has been required to progressively, and slowly, develop the gasifier to its full production through a careful balance of air injection flow rate and pressure. The Company has maintained a lower flow rate pending the completion of the planned and necessary well safety systems (cooling and process water tubes) and calibration and optimisation of the brand-new surface facilities. These works and optimisations are going well and the ramp up phase is a slow process to get the gasifier up to full efficiency. Experience with other successful ISG gasifiers has shown that this process needs to be gradual and deliberate. This is normal and of little commercial consequence when one gasifier will produce syngas for up to 5 years. The Company looks forward to being able to report on the quality and quantity of syngas being produced.

Important findings from the initiation process

On the 10th of October initiation had occurred and gasification of coal reactions had occurred. The full sequence of coal gasification takes some days to develop, but it was clear that the first stage of gasification and syngas production had occurred.

LCK will now be in a position to implement effective initiation of any subsequent commercial projects.

Other important findings from the initiation process were:

- That at no time were conditions developed that could result in environmental harm.
- That pressure was always below or comparable to existing groundwater pressures and around half of that needed to fracture strata.
- That the subsurface monitoring system was active throughout initiation.
- That the regulators and their expert consultant had access to the site and were advised of all significant events.
- That prior approved regulations were adhered to but where variations were considered necessary the regulators directives were sought and followed.

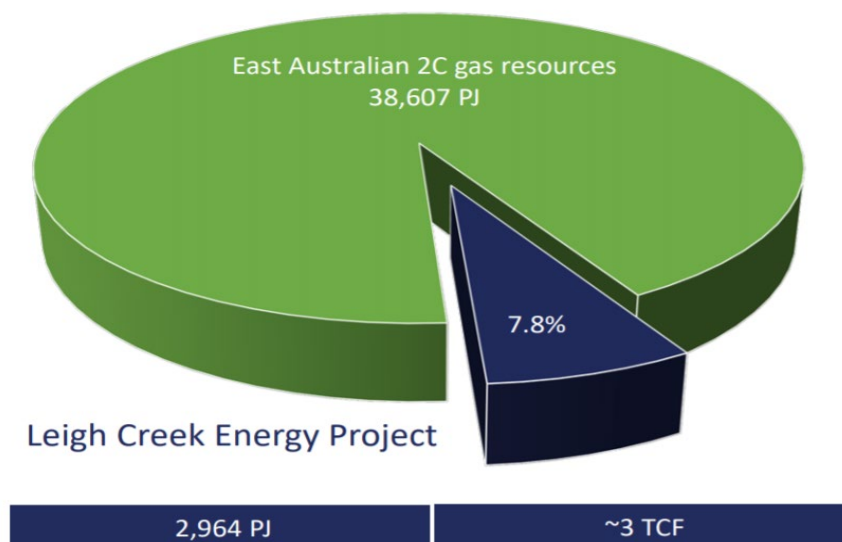
Executive Chairman's Commentary

Commenting on the initiation and production of syngas, Executive Chairman Mr Peters said:

"The initiation process provides the regulator, the community and stakeholders with important information with regards to the production of syngas at Leigh Creek. Initiation and production of syngas has commenced, and we have done so in accordance with our approvals. This has enabled us to develop a process that will ensure successful and effective initiation in subsequent commercial projects. Finally, I am very pleased to report that no conditions were developed that could result in environmental harm."

PRMS (upgrade of 2C resource to a 2P reserve)

LCK has a certified PRMS 2C Syngas Resource of 2963.9 PJ (refer ASX announcement January 8, 2016). The successful initiation of syngas will now allow us to commence work on the upgrade of a portion of our 2C resource to a 2P reserve.



(EnergyQuest Quarterly Report, December 2017)

Activity Notification Approval for PCD operations received

To allow the initiation of gas on the 10th of October LCK received the third and final of its Activity Notification approvals on 3 September 2018, preliminary to commencing PCD operations. This approval authorised LCK to operate, decommission and monitor the PCD and it is a major achievement that we initiated and commenced production of syngas within weeks of our final approval.

China Communications Construction Company Ltd (CCCC)

The Company announced on 11 September 2018 that as a result of LCK receiving all necessary approvals for the PCD, that the CCCC, a publicly traded, major multinational engineering and construction company, would be visiting LCK and the LCEP site during PCD operations to begin discussions to enter into a Heads of Agreement related to the commercial aspects of the LCEP.

CCCC is a publicly-traded, multinational engineering and construction company. Through its subsidiaries, CCCC has full Engineering, Procurement & Contracting (EPC) capabilities and actively pursues projects globally. CCCC has revenue of over USD\$70 Billion with over 118,000 employees. In 2006, the company listed its shares on the Hong Kong Stock Exchange, followed by a listing on the Shanghai Stock Exchange in 2012. The company now holds many subsidiaries, among them the John Holland Group, which is an Australia-based construction company focused on infrastructure.

CCCC is Asia's largest international contractor and:

- Is the world's largest offshore oil drilling platform design company;
- Has independently designed and constructed seven of the world's ten largest ports in terms of throughput; and

- Is the world's largest offshore oil drilling platform design company.

CCCC is a state-owned enterprise in China, and is the beneficial owner of CCCC, holding 63.8% of the company's shares. Other shareholders include multiple affiliates of (or funds managed by) Merrill Lynch, BlackRock and JPMorgan Chase.

Successful outcome of legal proceedings

The Company announced on 19 September 2018 that the South Australian Supreme Court had dismissed the legal action initiated by the Adnyamathanha Traditional Lands Association (represented by the NSW Environmental Defenders Office) seeking to injunct the operational start-up of the PCD. Whilst the Company was successful in defending this action it did provide some concern to shareholders during the period of commencement of proceedings to the outcome of proceedings.

Completion of Capital Raise

On 18 June 2018, The Company announced an institutional placement to be followed by a Share Purchase Plan.

Share Purchase Plan

On 30 July 2018, the Company announced that the Share Purchase Plan shortfall of \$1,478,400 was successfully placed, resulting in the planned total \$3.0m raise at \$0.16/per share. The SPP showed strong support from the Company's existing shareholders, and the shortfall was taken up by institutional and sophisticated investors, most of which are also existing shareholders.

General Meeting outcomes

As required the Company sought and obtained shareholder approval for the placement of an additional 27,126,447 shares to LCK's major shareholder, CNE, at a purchase price of \$0.16/per share. All other resolutions proposed for shareholder approval at the General Meeting held on 22 August 2018 were passed by a majority of shareholders.

China New Energy Group Limited Share Placement

In accordance with the shareholder approval and the ASX Listing Rules, it was a requirement that the shares were issued to CNE within 1 month of the approval. Throughout this period, CNE were going through the process of securing funds for their placement out of China but were unable to do this within the 1 month. LCK applied for an extension to the 1-month requirement, however this extension was not granted by the ASX, primarily due to movements in the Company's share price and the view that LCK's circumstances had materially changed since the approval date.

Whilst both parties could have renegotiated a new agreement, this would require further shareholder approval to issue any shares, and both parties were comfortable that LCK could seek to place this shortfall in due course, and in a stronger position following commencement of gasification.

It is important to reiterate that CNE have and continue to support the Company and would like to have taken up their placement allocation. This was only emphasised when the Company was able to dismiss the legal action seeking an injunction, and then subsequently commence gasification at the LCEP. The Company continues its strong relationship with its major shareholder CNE.

Actively Promoting the Company

LCK is committed to growing and promoting the Company and its activities to retail and institutional investors, financial advisers, stockbrokers and investor associations across Australia. LCK met with several

large investment funds and parties interested in the project. These include CCCC, SEC, CNE and several large listed Australian Companies. In addition, in the last quarter, LCK participated in these Conferences and events:

1. July 30-31, September 1 – Annual Australian Investors Association Conference, Gold Coast
2. July 30-31 - South Australian Resources & Energy Investment Conference, Adelaide
3. August 15, Australian Shareholder's Association Conference, Adelaide
4. August 28-30, Global Maintenance Upper Spencer Gulf Conference, Pt Augusta
5. September 4, Australian Shareholder's Association meeting, Perth
6. September 12-13, RUI Good Oil Conference, Perth
7. September 25, RUI Investor Roadshow, Sydney
8. September 27, RUI Investor Roadshow, Melbourne

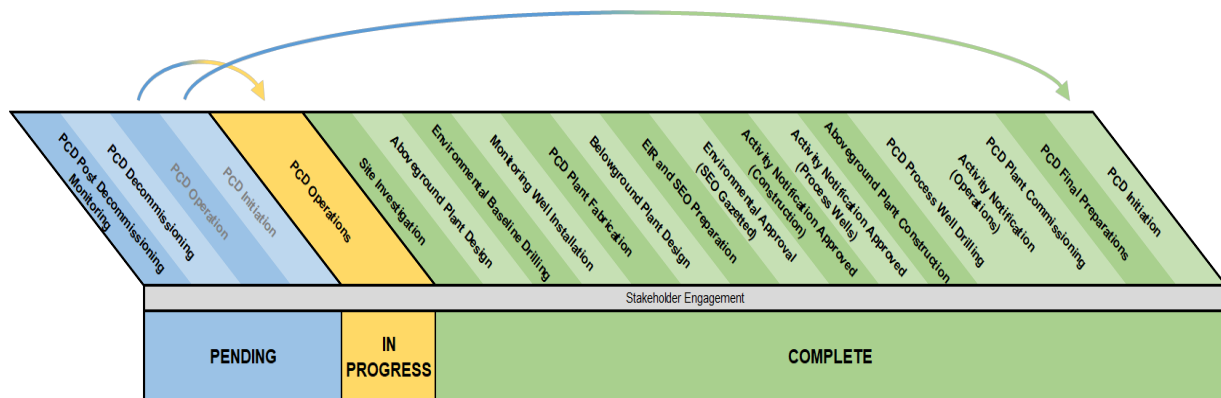
Finance

As at 30 September, the company's total cash balance was \$8.3m with total debt drawn of \$9.7m under the CBA R&D working capital debt facility. A summary of the actual cash flows for the quarter are attached in the Appendix 5B, along with forecast expected cash outflows of \$6.9m for the December quarter. Forecast cash receipts from financing activities for the December quarter include:

- Proceeds from placement of the CNE shortfall once complete;
- Net proceeds from the completion of the 2017/18 Income tax return; and
- A draw-down under the CBA Debt Facility.

PCD Progress Summary

Significant progress with the PCD this quarter is represented in the following graphic:



Tenements

As of 30 September 2018, LCK had a 100% interest in the licences listed below, all in South Australia, through LCK's wholly owned subsidiary Leigh Creek Operations Pty Ltd:

- Petroleum Exploration Licence 650;
- Gas Storage Exploration Licence 662.

Leigh Creek Operations Pty Ltd also has the following licence applications in progress:

- Petroleum Exploration Licence Application 582;

- Petroleum Exploration Licence Application 643;
- Petroleum Exploration Licence Application 644;
- Petroleum Exploration Licence Application 647; and
- Petroleum Exploration Licence Application 649.

Leigh Creek Energy – bringing reliable energy to South Australia

For further information, contact:

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About Leigh Creek Energy

Leigh Creek Energy Limited (LCK) is an emerging energy company focused on developing its Leigh Creek Energy Project (LCEP), located in South Australia. The LCEP will produce high value products such as electricity, methane (synthetic natural gas) and ammonium nitrate products (fertiliser and industrial explosives) from the remnant coal resources at Leigh Creek, utilising In Situ Gasification (ISG) technologies, and will provide long term stability and economic development opportunities to the communities of the Upper Spencer Gulf, northern Flinders Ranges and South Australia.

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

LCK acknowledges and respects the Adnyamathanha people, the Traditional Owners of the land on which its operations occur and pays its respects to their Elders past and present.

Resource Compliance Statement

The information in this announcement that relates to the 2C Contingent Syngas Resource was detailed in an announcement lodged with ASX on 8 January 2016 and is available to view at www.lcke.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in that announcement and that all material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed. All estimates are based on the deterministic method for estimation of petroleum resources.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

LEIGH CREEK ENERGY LIMITED

ABN

31 107 531 822

Quarter ended ("current quarter")

September 2018

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | | |
| 1.2 Payments for | | |
| (a) exploration & evaluation | (7,897) | (7,897) |
| (b) development | | |
| (c) production | | |
| (d) staff costs | (610) | (610) |
| (e) administration and corporate costs | (981) | (981) |
| 1.3 Dividends received (see note 3) | | |
| 1.4 Interest received | 48 | 48 |
| 1.5 Interest and other costs of finance paid | | |
| 1.6 Income taxes paid | | |
| 1.7 Research and development refunds | | |
| 1.8 Other (provide details if material) | | |
| 1.9 Net cash from / (used in) operating activities | (9,440) | (9,440) |

| | | |
|--|-------|-------|
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | (164) | (164) |
| (b) tenements (see item 10) | | |
| (c) investments | | |
| (d) other non-current assets | | |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|--------------------------------------|---|----------------------------|---------------------------------------|
| 2.2 | Proceeds from the disposal of: | | |
| | (a) property, plant and equipment | | |
| | (b) tenements (see item 10) | | |
| | (c) investments | | |
| | (d) other non-current assets | | |
| 2.3 | Cash flows from loans to other entities | | |
| 2.4 | Dividends received (see note 3) | | |
| 2.5 | Other (provide details if material) | | |
| 2.6 | Net cash from / (used in) investing activities | (164) | (164) |

| | | | |
|-----------|---|--------------|--------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of shares | 3,016 | 3,016 |
| 3.2 | Proceeds from issue of convertible notes | | |
| 3.3 | Proceeds from exercise of share options | | |
| 3.4 | Transaction costs related to issues of shares, convertible notes or options | (118) | (118) |
| 3.5 | Proceeds from borrowings | 5,880 | 5,880 |
| 3.6 | Repayment of borrowings | | |
| 3.7 | Transaction costs related to loans and borrowings | (162) | (162) |
| 3.8 | Dividends paid | | |
| 3.9 | Other (provide details if material) | | |
| 3.10 | Net cash from / (used in) financing activities | 8,616 | 8,616 |

| | | | |
|-----------|--|--------------|--------------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 9,324 | 9,324 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (9,440) | (9,440) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (164) | (164) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 8,616 | 8,616 |
| 4.5 | Effect of movement in exchange rates on cash held | | |
| 4.6 | Cash and cash equivalents at end of period | 8,336 | 8,336 |

| 5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$A'000 | Previous quarter \$A'000 |
|--|----------------------------|-----------------------------|
| 5.1 Bank balances | 913 | 1,088 |
| 5.2 Call deposits | 6,741 | 771 |
| 5.3 Bank overdrafts | | |
| 5.4 Other (Term deposits) | 682 | 7,465 |
| 5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 8,336 | 9,324 |

6. Payments to directors of the entity and their associates

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

**Current quarter
\$A'000**

330

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

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

**Current quarter
\$A'000**

21

Piper Alderman lawyers were paid for legal services rendered to the Group. Non-Executive Director Greg English is a partner at Piper Alderman lawyers.

Investment Company Services Pty Ltd were paid for investor relations advisory services rendered to the Group. Mr Boyd Peters, Managing Director of this company, is a related party of Mr Justyn Peters, Executive Chairman.

| 8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i> | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|--|--|---|
| 8.1 Loan facilities | 10,500 | 9,710 |
| 8.2 Credit standby arrangements | | |
| 8.3 Other (please specify) | | |
| 8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well. | | |
| R&D working capital facility with Commonwealth Bank of Australia. Facility limit increased to \$10.5m from mid-July 2018 and the term of the facility extended until December 2019. | | |

| 9. Estimated cash outflows for next quarter | \$A'000 |
|--|--------------|
| 9.1 Exploration and evaluation | 5,099 |
| 9.2 Development | |
| 9.3 Production | |
| 9.4 Staff costs | 816 |
| 9.5 Administration and corporate costs | 829 |
| 9.6 Other (Interest Expense) | 158 |
| 9.7 Total estimated cash outflows | 6,902 |

| 10. Changes in tenements (items 2.1(b) and 2.2(b) above) | Tenement reference and location | Nature of interest | Interest at beginning of quarter | Interest at end of quarter |
|--|---------------------------------|--------------------|----------------------------------|----------------------------|
| 10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced | | | | |
| 10.2 Interests in mining tenements and petroleum tenements acquired or increased | | | | |

Compliance statement

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

Sign here:



Company secretary

Date: 17 October 2018

Print name: Jordan Mehrtens

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.