



Thursday, 18 October 2018: ASX ANNOUNCEMENT (ASX: LCK)

Chairman's Letter

Dear Shareholders,

I wanted to take this opportunity to update you on the progress we are making on the Leigh Creek Energy Project (LCEP) since the release of our Annual Report and the September Quarterly Report.

LCEP Progress

As a company we have made and are making great progress with the LCEP. We have continued our extensive and ongoing consultation with the South Australian Government and have always been encouraged by their positive attitude. To that end we have received all the approvals required to construct and operate the Pre-Commercial Demonstration (PCD) at Leigh Creek.

I am pleased to be able to report that the PCD commenced operations on 10 October 2018. This represents a major milestone event for the Company. As a company we have worked hard with the Regulator, our contractors, and our stakeholders to achieve this significant milestone.

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. As a company we have the expertise that few, if any other companies have in this area. We have been fortunate enough to have the expertise gained from other trials around the world and have benefited greatly from this experience.

It should not be underestimated how much work went into this great achievement, as we encountered many obstacles in getting to initiation of the gasifier. We had lodged our Environmental Impact Report (EIR) and Statement of Environmental Objectives (SEO) documents with the Government in August 2017 and due to extra drilling requirements, the need for more baseline data and the public consultation process we found that the approval timeframe had slipped to the point where the South Australian Government moved into caretaker mode with the March 2018 State Election. Then with a change of Government the new minister had to get a full understanding and briefing on his new portfolio and our project. The EIR and SEO were approved in April 2018. We were constantly told by investment and fund managers that they doubted we would get the required approvals; yet we obtained all approvals. We were told that even if we obtained

those approvals we would not get to initiation and production of gas; yet on the 10th of October we initiated. The time from final approval to initiation was only 5 weeks.

After working for years on this process and an extensive consultation process with our stakeholders at the last moment we had to successfully defend an application by ATLA through their lawyers the NSW Environmental Defenders Office to stop the project. These were challenges that most small companies would not have coped with, yet we successfully met these challenges and where necessary overcame them.

Strategic Partners

It is important at this time to also discuss our relationship with our largest shareholder China New Energy Group Limited (CNE). As outlined in the recent quarterly report, the placement agreement with CNE that was approved by shareholders on 22 August 2018 lapsed, and we were unable to obtain an extension from the ASX. Whilst both parties could have renegotiated a new agreement, this would require further shareholder approval to issue any shares to CNE, and both parties were comfortable that the company 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. As I have previously stated CNE are not simply an investor who wants to get a return on their investment but a strategic investor who recognises the great potential of LCK and wants to be part of that long term future. It should come as no surprise that CNE and their parent company is involved in steel manufacturing, power generation and that they own and operate a fertiliser/urea plant. All these activities require large amounts of both gas and electricity.

We recently announced that China Communications Construction Company Ltd (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. We look forward to reporting on the development of that relationship.

LCK had previously announced (refer ASX announcement 6 April 2016) information regarding its Heads of Agreement (HoA) with Shanghai Electric Power Generation Group (SEC), in relation to the joint development of a gas fired power station in South Australia. The HoA expired earlier this year as LCK and SEC decided to wait until all approvals had been received, and initiation had occurred, before renewing the HoA.

We are pleased to be able to state that again as a result of obtaining all the required approvals for the PCD and the recent successful outcome in the Supreme Court, and initiation, that SEC has now confirmed that they will be visiting South Australia during the PCD operational stage to obtain gas data in order to select the right turbines to generate power. The LCK/SEC HoA is planned to be renewed while SEC are in Adelaide.

It should be clear to everyone that LCK is fortunate enough to have a very strong relationship with major Chinese companies. With CCCC and SEC interest in LCK and CNE and CITIC as shareholders,

over the next few months we look forward to developing these relationships and others to a commercial outcome.

Conclusion

This year has been both a challenging and rewarding year. I want to thank our staff who have worked tirelessly to ensure we obtained our approvals, initiated the PCD and worked as a team. I want to thank my fellow board members who have been a great support to myself and indeed the company. The next year will be a challenging one but in a different way. This year will be about getting a 2P Resource, working to obtain commercial approvals and working with our partners to obtain a clear commercial path forward. Again, I look forward to updating you as we progress through the year and reach more milestones.



Justyn Peters

Executive Chairman