

Leaf Resources

September 2018 Quarterly Update

Highlights:

- **MOU with PETRONAS Chemicals Group Berhad for biorefinery offtake**
- **Manufacturing licence approved for Malaysian Biorefinery**
- **Phase 3 Glycell™ Integrated Demonstration Study to commence**
- **Former COO Alex Baker appointed Managing Director/CEO, effective 1 February 2019**
- **Oversubscribed \$5 million placement completed to progress commercialisation of Glycell™ technology**
- **Construction of Malaysian biorefinery project expected to commence Q4 CY2019**

Leaf Resources Limited (ASX: LER) ('Leaf' or the "Company") is pleased to provide an update on its activities for the quarter ended 30 September 2018 and an update on business progress.

OPERATIONAL UPDATE

Biorefinery progress and update

Following on from its Fibre Supply Agreement with Biovision & Greenergy SDN BHD announced last quarter, Leaf announced a non-binding Memorandum of Understanding (MOU) with PETRONAS Chemicals Group Berhad (PCG) during August for biorefinery offtake. The MOU provides for a study of chemical markets and commercially ready bio-technologies and, subject to satisfactory findings and the approval of PCG, the parties may pursue an offtake agreement for the fermentable sugars produced at the proposed Leaf facility in Segamat (Johor, Malaysia).

The Company's Malaysian Subsidiary, Leaf Malaysia, was granted a manufacturing licence for the production of fermentable sugars (hexose and pentose), refined glycerol and lignin by the Ministry of International Trade and Industry (MIDA).

The proposed biorefinery will be located at Segamat and will incorporate Leaf's proprietary Glycell™ technology that converts plant waste into valuable industrial sugars and other chemicals used in a wide variety of products and by downstream industries.

The manufacturing licence approval is subject to the completion of an environmental study as well as other standard conditions including the use of approved architectural and engineering consultancy services in the design of the refinery.

Phase 3 Glycell™ Demonstration Study to commence

Having completed Phase 2 of the Integrated Demonstration Study (IDS) at Bioprocess Pilot Facility B.V. (BPF) in Delft, Holland in June, where samples of C6 industrial sugars and lignin were successfully produced, Leaf Resources will commence its Phase 3 study imminently.

The IDS is a critical component of the overall validation program for Leaf's proprietary Glycell™ technology, and an essential input to both the design and financing requirements for the Company's proposed biorefinery project in Malaysia.

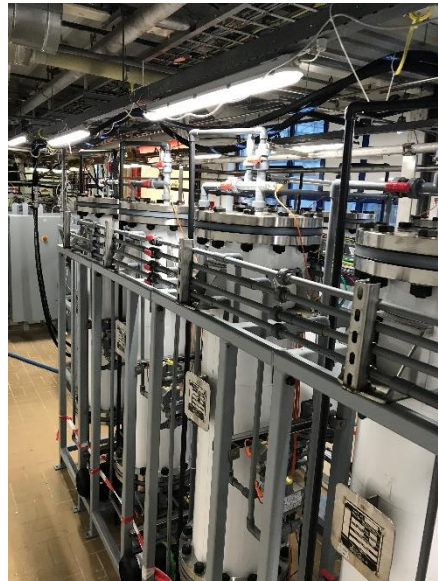
Results from Phase 2 indicated that the optimisation achieved will benefit the commercial installation.

During Phase 3, chromatography separation will be fully integrated in order that all three phases of the Glycell™ process are linked and validated. The complete system, with all three core process steps integrated, will run for up to 1,000 hours. This final study will include the unique separation technology, SMB (simulated moving bed chromatography) unit designed and built by Amalgamated Research Inc (ARI), the Company's chromatographic separations development partner.

Subsequent to the end of the quarter, initialisation of phase 3 has now commenced with the arrival, assembly and successful commissioning of the SMB unit for the chromatography separation by Leaf, Amalgamated Research Inc. and BPF engineers. Testing of the SMB will continue throughout November before it is linked in with the other two phases for the integrated test. The test criteria for the IDS have been agreed between the various parties involved in both the engineering for the project and the potential financing of the project.

The data generated by these studies will support the FEL 3 (Front End Loading) engineering study which will then feed into the final engineered design for the Segamat site. Subsequently, an institutional grade bankable feasibility study will be completed to support final due diligence and project financing.

SMB installed and commissioned



CORPORATE

Oversubscribed \$5 million placement completed

During August, Leaf Resources completed an oversubscribed \$5 million placement to new and existing domestic and international institutional and sophisticated investors. The funds raised will progress the commercialisation of Glycell™ technology.

The placement involved the issue of approximately 66.7 million new fully paid ordinary shares at an issue price of \$0.075 per share. Investors who participated in the Placement received 1 free attaching option for every 2 shares subscribed for in the Placement. The Option is exercisable at \$0.09 on or before 31 May 2019.

Canaccord Genuity (Australia) Limited acted as lead manager to the Placement. Salmon Giles Corporate Pty Ltd acted as Corporate Advisor to the Company.

The funds raised in the placement enabled Leaf to complete the purchase the SMB unit required for the Integrated Demonstration Study (IDS) in Holland, as well as paying the deposit required for the IDS. The Company expects to claim the majority of expenditure associated with the IDS under the R&D tax concession at the end of the financial year, with the SMB unit having excellent resale value upon completion of the IDS.

Leaf's management notes not all funds from the placement were received and cleared as at 30 September, however the majority of funds have now been received with a small amount remaining which is expected to finalise within this week.

Management changes

In September, Leaf Resources announced that former COO Alex Baker will be appointed Managing Director/CEO effective 1 February 2019.

Mr Baker returns to Leaf with 25 years' experience across various sectors including technology and biotechnology. He has significant public company experience in addition to Government and private enterprise roles. His expertise across leadership, financial management, stakeholder engagement and business development will be key in progressing the Leaf Resources business through further milestones.

Mr Baker has a long history with Leaf and the Glycell™ process and his ascension to the role of MD/CEO is a natural progression given his vast technical experience and complementary commercial skills.

In conjunction with this change Mr Ken Richards will step down from the MD/CEO role as at 1 February 2019, remaining on the board as an Executive Director in a part time capacity working on special projects for Leaf.

In an additional change to the executive team, Leaf's COO Jason Lowry has resigned to take the position of Vice President Operations with an industry leading US\$500m revenue sugar beet company in the US. This change will take effect 1 March 2019, with Mr Lowry to continue with Leaf in a consulting/advisory role. His

experience brings unique operational skills with elements of Leaf's Glycell™ process at a commercial operation level, with a consultancy role allowing Leaf to continue to access these skills.

R&D Tax Incentive

During the quarter, Leaf received \$941,000 in respect of its entitlement under the Research and Development Tax Incentive Program for the 2018 financial year.

The funds will be used to contribute to the Phase 3 Integrated Design Study in Delft, continuing its research and development program being undertaken as the company draws closer to the first fully commercial biorefinery utilising Leaf's proprietary Glycell™ technology in Malaysia.

Results of Meeting

Leaf Resources held an Extraordinary General Meeting on 14 September 2018 at Grant Thornton, Fred Hollows Training Room, Brisbane. All resolutions put to shareholders passed on a show of hands.

Outlook

In the past 12 months the Company, with the support of project management partner Claeris, has made excellent progress on its path toward final approvals, financing and commercial arrangements for the first Malaysian biorefinery project. This critical path to construction of the project is demonstrated on the table below.

On the current timetable – and assuming key milestones are achieved on schedule over the period – Leaf expects to be in a position to start construction in the last quarter of calendar year 2019.

THE CRITICAL PATH TO PROJECT CONSTRUCTION

 Completed up to October 2017
 Completed October 2017-October 2018
 Underway October 2018 onwards

Proving technology/ engineering design	Independent testing (350 hours)	External validation	Phase 2 IDS	Phase 3 IDS	FEL 3 appointment	FEL 3 Completed	EPC Contract Secured		
Identifying & securing site & feedstock supply	Project management agreement (Claeris)	Preferred country location	Site selection	Preliminary agreement on utilities, EFB supply	Site option agreement executed	Glycerol supply preliminary agreement	Final utilities agreement	Final EFB agreement	Final glycerol agreement
Government & regulatory approvals	Key government agency support letters	Manufacturing license	Tax exemption application	Tax exemption approval	Environmental approvals	Final Government approval			
Proving economics & feasibility	FEL 1	FEL 2	Independent feasibility	Bankable feasibility					
Project financing	New Energy Risk Insurance Application	IDA application	Investment structure	Project financing documentation	Debt secured	Equity secured			
Identifying & securing offtake customers	Testing of sugars	Phase 2 IDS samples	Glycerol offtake agreement	LeafCOAT samples	MOU for sugars offtake (Petronas)	Final contracts executed			

ENDS

About Leaf Resources Ltd (ASX: LER)

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

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

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

Name of entity

LEAF RESOURCES LIMITED

ABN

18 074 969 056

Quarter ended ("current quarter")

30 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) research and development	(2,278)	(2,278)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(384)	(384)
(f) administration and corporate costs	(65)	(65)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	941	941
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,786)	(1,786)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(362)	(362)
(b) businesses (see item 10)	-	-
(c) investments	(453)	(453)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(815)	(815)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	4,173	4,173
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(33)	(33)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	4,140	4,140

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	558	588
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,786)	(1,786)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(815)	(815)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,140	4,140

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	2,097	2,097

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	2,097	558
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,097	558

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**

186

-

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

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

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

**Current quarter
\$A'000**

-

-

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

9. Estimated cash outflows for next quarter *	\$A'000
9.1 Research and development	1,095
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	-
9.4 Leased assets	-
9.5 Staff costs	375
9.6 Administration and corporate costs	326
9.7 Other (provide details if material) (further investment in overseas subsidiary (\$253), payment for capital equipment for integrated trial (\$129) and GST (\$15))	806
9.8 Total estimated cash outflows	2,602

* Note, the cash outflows will be offset by additional funds due in for the last capital raise of \$580k and anticipated R&D Financing of \$600k

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

Compliance statement

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

Sign here: .....
(Director)

31/10/18
Date:

Print name: Ken Richards.....

Notes

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