

December 2018 Quarterly Update

Highlights:

- **LEAF validates fully integrated Glycell™ process**
- **TechnipFMC signed for Malaysia project front end engineering study (FEL3)**
- **Manufacturing licence approved for Malaysian biorefinery**
- **R&D financing package secured**

Leaf Resources Limited (ASX: LER) ('Leaf' or the "Company") is pleased to provide an update on its activities for the quarter ended 31 December 2018 and an outlook on the business for 2019.

OPERATIONAL UPDATE

As part of pilot testing on a fully integrated basis with its partner Bioprocess Pilot Facility (BPF) in Delft, The Netherlands, Leaf achieved important qualification milestones during the quarter that further validate the proprietary Glycell™ process. With BPF, Leaf has undertaken a series of Integrated Demonstration Studies (IDS) that incorporate the necessary engineering and hardware components in pilot scale testing. This pilot testing is a critical component of the overall validation program for the technology, and an essential input to both the design and financing requirements for the Company's proposed biorefinery project in Malaysia.

The Company has successfully concluded phase 1 and phase 2 trials, with the second phase trial producing samples of C6 industrial sugars and lignin. Leaf has now commenced the final phase of the IDS, which focuses on refining and validating the Glycell™ process including production of samples of fermentable sugars, refined glycerol and lignin for potential customers.

The final study includes the unique separation technology (Simulated Moving Bed Chromatography) unit designed and built by Amalgamated Research Inc (ARI), the Company's chromatographic separations development partner.

The Stimulated Moving Bed Chromatography unit arrived in Holland from the USA during the quarter and the unit was installed into the pilot plant at Delft in November before achieving installation qualification (IQ).

In the first two weeks of December, Leaf completed operations qualification (OQ) through commissioning, water testing and operation on actual product produced in the facility with the Glycell™ process.

An automated membrane press filtration unit was also required, purchased and installed, also progressing through the IQ and OQ steps. Leaf's engineering and technical team remain in Holland to continue integrated operations.

The trial will provide critical data for the preparation of the FEL3 (Front End Loading level 3) engineering study. The FEL3 study is a critical milestone in Leaf's plans to establish a biorefinery at Segamat in Malaysia, incorporating the company's proprietary Glycell™ process.

It is anticipated that the IDS phase 3 design study will continue into the first quarter of 2019 with performance qualifications (PQ) as the equipment and processes are optimised in an integrated, continuous fashion.

The completion of the Phase 3 IDS and FEL3 stages of the project will enable an institutional grade bankable feasibility study to be completed to support final due diligence and project financing. Leaf will begin preparation of the bankable feasibility study – to support final due diligence and project financing – as data from the current IDS progressively becomes available starting in April 2019.

As part of preparation for FEL3, Leaf appointed international engineering company TechnipFMC during the quarter to conduct the study. Work on the FEL3 study commenced during January in Malaysia and is expected to be completed in August 2019. TechnipFMC is UK-based and operates in 40 countries, including Malaysia where it maintains a strong presence.

TechnipFMC will contribute its extensive international engineering experience and capabilities to the FEL3 study. TechnipFMC was awarded the contract after a competitive bidding process contested by several leading engineering companies.

During the quarter Leaf also marked an important milestone in its plans to open a biorefinery at Segamat, Malaysia, after the approval of a manufacturing licence from Malaysian authorities. The Company's Malaysian Subsidiary, Leaf Malaysia was granted the licence to produce fermentable sugars (hexose and pentose), refined glycerol and lignin.

The manufacturing license was granted by Malaysia's Ministry of International Trade and Industry. The licence is subject to the completion of an environmental study, including the use of approved architectural and engineering consultancy services in the design of the biorefinery.

During the quarter Leaf also announced that it had secured an extension to the licensed territories for LeafCOAT. Set out under the new agreement, Leaf has secured the rights to commercialise and distribute LeafCOAT in Europe. The original licence covered key jurisdictions of North America, Brazil and Malaysia.

R&D TAX INCENTIVE / FINANCE UPDATE

During September Leaf received \$941,000 under the Research and Development Tax Incentive Program for the 2018 financial year. The funds will be used to contribute to the phase 3 IDS in Delft.

The Company also entered into a loan agreement during December with Radium Capital for the advance payment of funds to be received under the Australian R&D tax incentive. Under the agreement, Leaf has already received \$660,000 from Radium, representing its expected R&D tax rebate for July-October 2018.

At this key stage in the Company's development the loan agreement provides non-dilutive funding. The management team expect that, if required, the Company will be successful in receiving further advanced payments covering its R&D spend in subsequent months. Leaf estimates that based on expected R&D spend this will provide an ability to drawdown up to an additional \$1.5 million.

Radium Capital provides funding to innovative Australian businesses running successful R&D programs by providing R&D tax incentive loans, on favourable terms, in advance of their receipt from the ATO.

FINANCIALS

Noting the Company's cash position of \$574k at the end of the period, Leaf expects to secure additional non-dilutive funds in the near term.

As disclosed in the ASX announcement dated 18 December 2018 and noted above, Leaf has secured a loan agreement with Radium Capital which will enable it to drawdown an estimated further \$1.5 million in an advance on its expected R&D tax rebate for the remainder of the financial year.

In addition, Leaf is in discussion with interested groups regarding the sale of equipment assets purchased to conduct its Integrated Demonstration Study (IDS) in Delft, Holland. The Company expects to arrange the sale of the equipment in due course.

COMPANY PRESENTATION

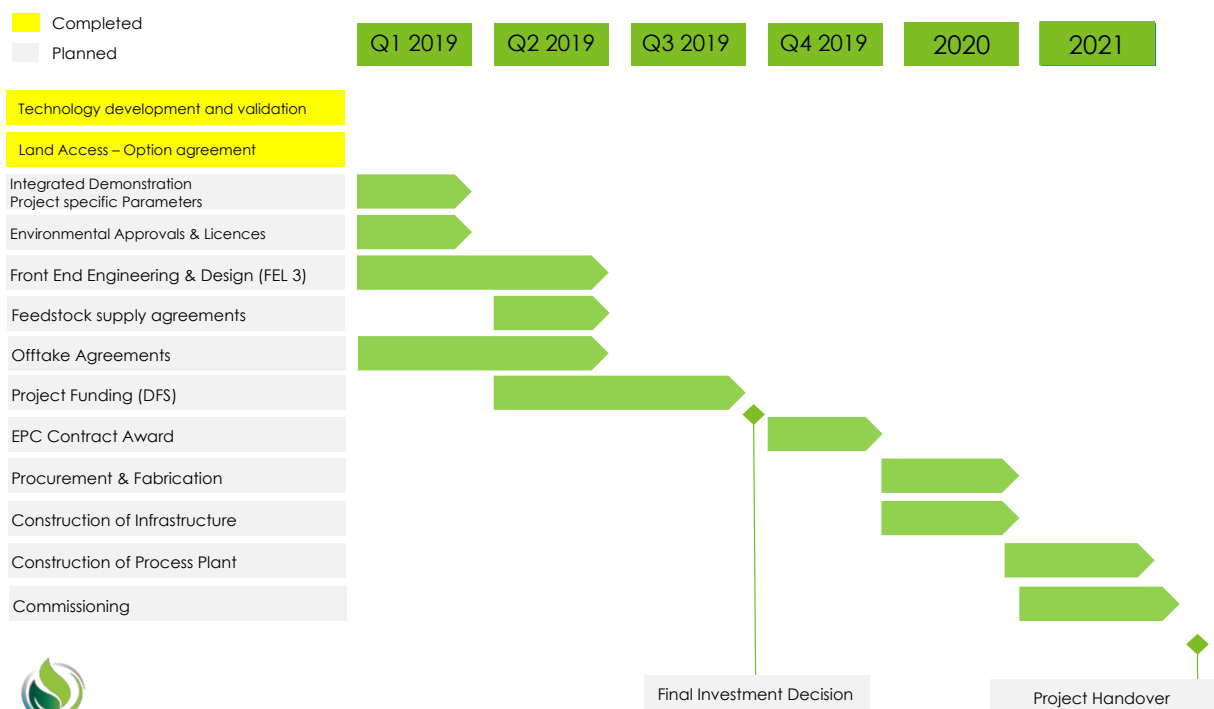
During the quarter the Company also released an updated investor presentation to the ASX which can be viewed here:

<https://www.asx.com.au/asxpdf/20181017/pdf/43zb4f3zf3mr4y.pdf>

OUTLOOK

During the past quarter the Company, with the support of project development JV partner Claeris, has continued to build momentum towards the path of establishing the first Malaysian biorefinery project. A number of key developments are expected in the first half of 2019 towards the project structure, commercial arrangements, and financing pathway.

CRITICAL PATH TO PROJECT CONSTRUCTION



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

Contacts:

Ken Richards (Managing Director)
Douglas J Rathbone (Chairman)

M: +61 403 385 051
M: +61 411 258 987

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

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

Name of entity

LEAF RESOURCES LIMITED

ABN

18 074 969 056

Quarter ended ("current quarter")

31 December 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) research and development	(425)	(2,704)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(397)	(781)
(f) administration and corporate costs	(395)	(459)
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
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,217)	(3,003)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(339)	(701)
(b) businesses (see item 10)	-	-
(c) investments	(504)	(957)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(843)	(1,658)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	793	4,966
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	(256)	(289)
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	537	4,677

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	2,097	588
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,217)	(3,003)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(843)	(1,658)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	537	4,677

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	574	574

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	574	2,097
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)	574	2,097

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**

154

-

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)	667	667
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 Financing – advancement of future R&D tax incentive receipts. Lender – Radium Capital. Interest rate 15% per annum. Security over the future R&D tax incentive cash receipts. Loan balance 660k, interest 7k.
Additional \$595k to be drawn at the beginning of Feb on the same terms.

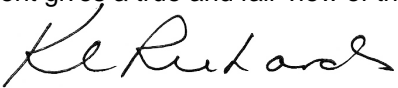
9. Estimated cash outflows for next quarter *	\$A'000
9.1 Research and development	189
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	-
9.4 Leased assets	-
9.5 Staff costs	412
9.6 Administration and corporate costs	169
9.7 Other (provide details if material) (further investment in overseas subsidiary (\$243))	254
9.8 Total estimated cash outflows	1,024

* Note, the cash outflows will be offset by additional funds due in for anticipated R&D Financing

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:  Date: 31/1/19
(Director)

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.