30th October 2020

Australian Securities Exchange Announcement

Dear Shareholder

Annexure to Notice of Meeting – Independent Experts Report (IER)

Please find following this cover the IER regarding certain resolutions being considered in the EGM to be held on the 27th November 2020. The IER is an annexure to the Notice of Meeting that was released on the Company's ASX platform on the 29th October 2020.

Shareholders should carefully consider the IER, which was prepared for the purposes of the Shareholder approvals required under section 611 item 7 of the Corporations Act and ASX Listing Rule 10.1 (refer to resolutions 3, 5 and 6 of the Notice of Meeting).

The IER comments on the fairness and reasonableness of the transactions the subject of the relevant resolutions to the non-associated Shareholders.

The IER is available to shareholders electronically and can be viewed and downloaded online from the ASX or at the following link page:

http://investor.leafresources.com.au/agm.html

Tim Pritchard

Company Secretary, Leaf Resources Limited

info@leafresouces.com.au

30 October 2020

The Directors
Leaf Resources Limited
Level 1, 27 James Street
Fortitude Valley QLD 4006

Dear Directors

Re: Independent Expert's Report

1. Introduction

The directors of Leaf Resources Limited ("Leaf" or "LER" or "the Company") have requested PKF Melbourne Corporate Pty Ltd ("PKF Corporate") to prepare an Independent Expert's Report ("IER") in respect of the proposed transaction that would see the Company acquire 100% of the issued capital in Essential Queensland Pty Ltd ("EQ" or "the Target") from its current shareholders.

The proposed transaction will result in the Leaf voting power of a vendor shareholder, Mr Ramon Mountfort and his associated entities (the "Mountfort Interest"), increasing beyond the 20% limit imposed by Section 606 of the Corporations Act 2001 ("the Act").

The Australian Securities Exchange (ASX) Listing Rule 10.1 requires that a company obtain shareholder approval at a general meeting when the acquisition of a substantial asset is made from a related party or a shareholder holding shares in at least 10% of the company's voting securities. As Mr Ken Richards is a director of Leaf and the Target, ASX Listing Rule 10.1 requires that the Company obtain shareholder approval for the proposed transaction.

2. The Proposed Transaction

Leaf has entered into a Share Sale Agreement with Ramon Mountfort and Shirley Mountfort ATF Mounties1 Family Trust (the "Founder Shareholder") of the Target, under which the Company has conditionally agreed to acquire all of the issued capital of EQ (the "EQ Shares") held by the Founder Shareholder (comprising 58.07% of the issued share capital of EQ) (the "Agreement").

The Agreement is subject to the following conditions precedent, among other things:

- Leaf's shareholders approving the acquisition of EQ by Leaf;
- each shareholder of EQ executing a binding share sale and purchase agreement with Leaf in relation to the sale of all of the EQ Shares held by them;
- Leaf and each of the relevant security holders of EQ executing cancellation deeds in relation to the cancellation of the options and performance rights in the capital of EQ held by those shareholders in consideration for the issue of options and performance rights in the capital of Leaf;
- Leaf and EQ entering into a loan agreement in respect of the advance of AU$600,000 by EQ to Leaf (the "Loan"). These funds have since been advanced to Leaf by EQ; and
- Leaf converting all outstanding amounts owing to its Directors as at 30 June 2020 to shares in Leaf at a deemed issue price of AU$0.020 per LER share. We understand that these amounts total AU$235,088.

2.1 The Consideration Payable

The consideration payable by Leaf is to be satisfied by the issue of:

1. 1,017,258,033 fully paid ordinary shares (on a post-consolidation basis) in Leaf, in consideration for the acquisition of all of the fully paid ordinary shares on issue in EQ;

2. 34,455,861 options (on a post-consolidation basis) to acquire shares in Leaf (the “Options”), in lieu of the cancellation of existing options on issue in EQ of which:

   - 9,705,861 Class A Options (on a post-consolidation basis) will have an exercise price of AU$0.030 per Option and expire on or before 31 October 2021; and

   - 24,750,000 Class B Options (on a post-consolidation basis) will have an exercise price of AU$0.023 per Option and expire on or before 1 March 2025; and

3. 33,000,000 performance rights (on a post-consolidation basis) in the capital of Leaf (the “Rights”) which will vest on or before 3 August 2023 subject to achieving the below milestones and the holder remaining a director and/or executive (or the equivalent) of Leaf until 1 July 2023:

   - 11,000,000 Class A Rights (on a post-consolidation basis) subject to Leaf achieving AU$1 million audited EBITDA per month for any consecutive three month period;

   - 11,000,000 Class B Rights (on a post-consolidation basis) subject to Leaf achieving AU$2 million audited EBITDA per month for any consecutive three month period; and

   - 11,000,000 Class C Rights (on a post-consolidation basis) subject to Leaf achieving AU$3 million audited EBITDA per month for a consecutive three month period.

In the balance of this report we have assessed the value of the consideration payable to only include the ordinary shares and options in Leaf, and not the performance rights as their values are not able to be assessed at this point in time as they relate to performance milestones which are non-market events.

2.2 Proposed Resolutions to be Approved by Shareholders

Leaf is seeking shareholder approval at the forthcoming General Meeting (“GM”). The Notice of General Meeting (the “Notice”) requires the shareholders to vote on several ordinary resolutions which are collectively referred to as the “Essential Resolutions”. We have set out a selection of the Essential Resolutions below.

Resolution 1: Approval of acquisition of Essential Queensland Pty Ltd

“That, subject to and conditional upon the passing of all Essential Resolutions, for the purpose of ASX Listing Rule 11.1.2 and for all other purposes, approval is given for the Company to make a significant change to the nature and scale of its activities resulting from completion of the Acquisition, as described in the Explanatory Statement.”

Resolution 2: Consolidation of capital

“That, subject to and conditional upon the passing of all Essential Resolutions, pursuant to section 254H of the Corporations Act and for all other purposes, the issued capital of the Company be consolidated on the basis that:

a) every 20 Shares be consolidated into 17 Shares;

b) *every 20 Options be consolidated into 17 Options; and*

c) *every 20 Performance Rights be consolidated into 17 Performance Rights."*

(Consolidation) and, where this Consolidation results in a fraction of a Security being held, the Company be authorised to round that fraction up to the nearest whole Security (as the case may be)."

Resolution 3: Approval to issue consideration shares to related and founder vendor – Ramon Mountfort and Shirley Mountfort ATF Mounties1 Family Trust

"That, subject to and conditional upon the passing of all Essential Resolutions, for the purposes of section 611 (item 7) of the Corporations Act, Listing Rule 10.11 and for all other purposes, approval is given for:

a) *the issue of 590,700,000 Shares (on a post-Consolidation basis) to Ramon Mountfort and Shirley Mountfort ATF Mounties1 Family Trust; and*

b) *the acquisition of a relevant interest in the issued voting shares of the Company by Ramon Mountfort and Shirley Mountfort ATF Mounties1 Family Trust, otherwise prohibited by section 606(1) of the Corporations Act by virtue of the issue of Shares referred to above, which will result in Ramon Mountfort and Shirley Mountfort ATF Mounties1 Family Trust voting power in the capital of the Company increasing from 0% to 40.32%;*

on the terms and conditions set out in the Explanatory Statement."

Resolution 4: Approval to issue consideration shares to the unrelated vendors

"That, subject to and conditional upon the passing of all Essential Resolutions, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue 315,887,533 Consideration Shares (on a post-Consolidation basis) to the Unrelated Vendors in consideration for the Acquisition on the terms and conditions set out in the Explanatory Statement."

Resolutions 5 and 6: Issue of consideration securities to related vendors – The Richards Entities

Resolution 5: Issue of consideration securities to related vendor – Growth Capital (WA) Pty Ltd ATF the Richards Family Trust

"That, for the purposes of ASX Listing Rules 10.1 and 10.11 and for all other purposes, approval is given for the Company to issue:

a) *13,200,000 Consideration Shares;*

b) *4,852,914 Class A Consideration Options; and*

c) *24,750,000 Class B Consideration Options,*

(all on a post-Consolidation basis) to Growth Capital (WA) Pty Ltd ATF the Richards Family Trust (or its nominee) on the terms and conditions set out in the Explanatory Statement."

Resolution 6: Issue of consideration securities to related vendor – Keliri Pty Ltd ATF the Richards Family Superannuation Fund

"That, for the purposes of Listing Rules 10.1 and 10.11 and for all other purposes, approval is given for the Company to issue:

a) 30,558,000 Consideration Shares; and

b) 4,852,947 Class A Consideration Options,

(all on a post-Consolidation basis) to Keliri Pty Ltd ATF the Richards Family Superannuation Fund (or its nominee) on the terms and conditions set out in the Explanatory Statement."

Resolutions 7 and 8: Issue of consideration securities to related vendors – The Gray Entities

Resolution 7: Issue of consideration shares to related vendor – Terence Gray and Elizabeth Gray ATF the T+E Gray S/F

"That, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 8,750,000 Consideration Shares (on a post-Consolidation basis) to Terence Gray and Elizabeth Gray ATF the T+E Gray S/F on the terms and conditions set out in the Explanatory Statement."

Resolution 8: Issue of consideration performance rights to related vendor – Mr Terence Gray

"That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 16,500,000 Consideration Performance Rights (on a post-Consolidation basis) to Mr Terence Gray on the terms and conditions set out in the Explanatory Statement."

Resolutions 9 and 10: Issue of consideration securities to related vendors – The Yeatman Entities

Resolution 9: Issue of consideration shares to related vendor – Grant Yeatman ATF the GC Family Trust

"That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 58,162,500 Consideration Shares (on a post-Consolidation basis) to Grant Yeatman ATF the GC Family Trust on the terms and conditions set out in the Explanatory Statement."

Resolution 10: Issue of consideration performance rights to related vendor – Mr Grant Yeatman

"That, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 16,500,000 Consideration Performance Rights (on a post-Consolidation basis) to Mr Grant Yeatman on the terms and conditions set out in the Explanatory Statement."

Resolution 11: Issue of shares pursuant to public offer

"That, subject to and conditional upon the passing of all Essential Resolutions, for the purposes of Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 150,000,000 Shares (on a post-Consolidation basis) at an issue price of $0.02 per Share on the terms and conditions set out in the Explanatory Statement."

Resolution 12: Issue of corporate advisor shares to Tegis Pty Ltd

"That, subject to and conditional upon the passing of all Essential Resolutions, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue up to 10,000,000 Shares (on a post-Consolidation basis) to Tegis Pty Ltd (or its nominee) on the terms and conditions set out in the Explanatory Statement."

Resolution 13: Approval to issue debt conversion shares to Mr Doug Rathbone

"That, subject to and conditional upon the passing of all Essential Resolutions, for the purposes of section 195(4) and section 208 of the Corporations Act, Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue up to 4,101,850 Shares (on a post-Consolidation basis) to Mr Doug Rathbone (or his nominee) on the terms and conditions set out in the Explanatory Statement."

Resolution 14: Approval to issue debt conversion shares to Mr Ken Richards

"That, subject to and conditional upon the passing of all Essential Resolutions, for the purposes of section 195(4) and section 208 of the Corporations Act, Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue up to 4,646,350 Shares (on a post-Consolidation basis) to Mr Ken Richards (or his nominee) on the terms and conditions set out in the Explanatory Statement."

Resolution 15: Approval to issue debt conversion shares to Mr Alex Baker

"That, subject to and conditional upon the passing of all Essential Resolutions, for the purposes of section 195(4) and section 208 of the Corporations Act, Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue up to 1,506,200 Shares (on a post-Consolidation basis) to Mr Alex Baker (or his nominee) on the terms and conditions set out in the Explanatory Statement."

Resolution 16: Approval to issue debt conversion shares to Mr William Baum

"That, subject to and conditional upon the passing of all Essential Resolutions, for the purposes of section 195(4) and section 208 of the Corporations Act, Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue up to 1,041,650 Shares (on a post-Consolidation basis) to Mr William Baum (or his nominee) on the terms and conditions set out in the Explanatory Statement."

Resolution 17: Approval to issue debt conversion shares to Mr Matthew Morgan

"That, subject to and conditional upon the passing of all Essential Resolutions, for the purposes of section 195(4) and section 208 of the Corporations Act, Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue up to 458,350 Shares (on a post-Consolidation basis) to Mr Matthew Morgan (or his nominee) on the terms and conditions set out in the Explanatory Statement."

We have been requested to provide an opinion on whether Resolutions 3, 5 and 6 are fair and reasonable to the Non-Associated Shareholders. As all of the Essential Resolutions are interdependent on each other, shareholders have to approve all of these resolutions for them to become effective. For this reason we regard all of the Essential Resolutions as together forming part of one overall transaction and in the balance of this report we refer to this transaction as the Proposed Transaction ("the Proposed Transaction").

Whilst the Essential Resolutions are interdependent on each other, Resolution 3 seeks approval for Ramon Mountfort and Shirley Mountfort ATF Mounties1 Family Trust to increase their voting power in Leaf from 0% to 40.32% for the purposes of section 611 (item 7) of the Corporations Act, whereas Resolutions 5 and 6 seek approval for the issue of consideration securities to The Richards Entities pursuant to ASX Listing Rule 10.1 (the "Richards Resolutions"). As these are separate regulatory requirements, we have provided two separate opinions, one in respect of the overall Proposed Transaction incorporating all of the Essential Resolutions and the other solely in respect of the Richards Resolutions.

2.3 Impact of the Proposed Transaction

The Proposed Transaction will result in the following changes to the capital structure of Leaf:

- a consolidation of the existing shares in Leaf (the "Consolidation"), refer to Resolution 2;
- the issue of new ordinary shares, options and performance rights in Leaf as consideration for the acquisition of the Target (the "Acquisition"), refer to Resolutions 1 and 3 to 10;
- the issue of new ordinary shares following the capital raising (the "Offer"), refer to Resolution 11;
- the issue of new ordinary shares to Tegis Pty Ltd, an associated entity of Terence Gray, as corporate advisor to the Company, refer to Resolution 12; and
- the issue of new ordinary shares to satisfy the repayment of amounts owing to Directors' of the Company (the "Debt Conversion), refer to Resolutions 13 to 17.

We have summarised the impact of the Proposed Transaction on the capital structure of Leaf in the table below.

Table 1

Leaf Resources Limited Impact on capital structure	Resolution(s)	Number of Shares	Number of Options	Number of Rights
Total issued capital (pre-consoldiation basis)		354,099,144	12,473,718	972,599
Impact of the Consolidation on a 20:17 basis	2	(53,114,872)	(1,871,058)	(145,890)
Total issued capital (post-consolidation basis)		300,984,272	10,602,660	826,709
Impact of the Acquisition	1, 3-10	1,017,258,033	34,455,861	33,000,000
Impact of the Offer[1]	11	125,000,000	-	-
Impact of the advisory shares	12	10,000,000	-	-
Impact of the Debt Conversion	13-17	11,754,400	-	-
Total issued capital after the Proposed Transaction		1,464,996,705	45,058,521	33,826,709

[1] based on minimum amount to be raised under the Offer of AU$2.5 million at AU$0.02 per LER share

The Proposed Transaction will result in the following change to the shareholding in Leaf:

- the Mountfort Interest increasing its voting power in Leaf to 40.32%; and
- the Vendor Shareholders of EQ increasing their voting power in Leaf from 8.72% to 72.23% and the issue of 34,344,861 Options and 33,000,000 Performance Rights.

The table below shows the impact on Leaf's voting power following the Proposed Transaction.

Table 2

Leaf Resources Limited Shareholder name	if Resolutions not approved Number of shares held	 Voting power	if Resolutions approved Number of shares held	 Voting power
Ramon Mountfort & associated entities	-	0.00%	590,700,000	40.32%
Kenneth Richards & associated entities	26,844,389	7.58%	71,222,081	4.86%
Gary Yeatman & associated entities	-	0.00%	58,162,500	3.97%
Terence Gray & associated entities	4,041,575	1.14%	22,185,339	1.51%
Unrelated Vendors	-	0.00%	315,887,533	21.56%
Total Vendor Shareholders	30,885,964	8.72%	1,058,157,452	72.23%
Douglas Rathbone & associated entities	14,683,636	4.15%	16,582,941	1.13%
Alex Baker & associated entities	3,943,042	1.11%	4,857,786	0.33%
William Baum & associated entities	-	0.00%	1,041,650	0.07%
Matthew Morgan & associated entities	2,253,219	0.64%	2,373,586	0.16%
Total Other Director Shareholders	20,879,897	5.90%	24,855,962	1.70%
Tribeca Investment Partners Pty Ltd	40,486,527	11.43%	34,413,548	2.35%
Other Non-Associated Shareholders	261,846,756	73.95%	222,569,743	15.19%
Total Non-Associated Shareholders	302,333,283	85.38%	256,983,291	17.54%
Issue of new shares under the Offer	n/a	n/a	125,000,000	8.53%
Total shares on issue	354,099,144	100.00%	1,464,996,705	100.00%

As can be seen from the above table, if the Non-Associated Shareholders approve the Proposed Transaction this will result in an increase in the voting power of the Mountfort Interest from below 20% to up to 40.32%. Accordingly, the Proposed Transaction cannot take place without prior approval by the Leaf shareholders in accordance with Section 611 item 7 of the Act.

The Directors of Leaf have requested PKF Corporate to prepare an IER in accordance with ASIC Regulatory Guide 111 – Content of expert reports. ASIC Regulatory Guide 111 requires the Independent Expert to advise the shareholders whether the Proposed Transaction is fair and reasonable, when considered in the context of the interests of the Non-Associated Shareholders (all shareholders entitled to vote on the Proposed Transaction).

3. Summary opinions

In our opinion, the Proposed Transaction is **not fair but is reasonable to the Non-Associated Shareholders**. Our principal reasons for reaching this opinion are:

Fairness – Resolution 3

- In Section 7 of this report, we assessed the value of a Leaf ordinary share on a control basis before the Proposed Transaction to be in a range of AU$0.023 to AU$0.027 per share;

- In Section 10 of this report, we assessed the value of a Leaf ordinary share on a minority basis after the Proposed Transaction to be in a range of AU$0.019 to AU$0.022 per share; and

- As the minority value range mid-point (AU$0.0205 per share) of a Leaf ordinary share after the Proposed Transaction is less than the control value range mid-point (AU$0.025 per share) of a Leaf share before the Proposed Transaction, we have concluded that the Proposed Transaction is **not fair**.

Reasonableness

The reasons for assessing the Proposed Transaction as **reasonable** are:

- The Company currently has minimal cash resources and a deficiency of net assets over liabilities. Approval of the Proposed Transaction and the successful completion of the capital raise under the Offer will allow Leaf to strengthen its cash resources to be utilised for working capital and improve the mill optimisation of EQ as well as provide the opportunity to bring on strategic institutional or sophisticated investors to the share register of the Company.

- If shareholders do not approve the Proposed Transaction, the Loan provided by EQ will become immediately payable by Leaf and will require Leaf to seek immediate funding to repay the Loan which may be on substantially unfavourable terms or be highly dilutive to shareholders and may require extensive management focus and expense to secure. If Leaf is unable to repay the Loan, it risks default and the adverse impacts as the Loan is secured against Leaf assets.

- If Shareholders approve the Proposed Transaction, the Mountfort Interests will control up to 40.32% of Leaf's voting power and the Vendor Shareholders of EQ will collectively control up to 72.23% of Leaf's voting power. As a result, the combined shareholding of the Non-Associated Shareholders will be diluted from 85.38% to 17.54% and they will have reduced ability to influence the operating, financing and strategic decision of Leaf. Further, as the Mountfort Interests' voting power will increase beyond 25% it may have the capacity to block the passing of a special resolution.

- The acquisition of EQ will provide Leaf with key personnel who have the relevant market expertise which will provide Leaf's proprietary asset, Glycell™, a commercial avenue as part of its application into EQ's extraction process. The extraction process employed by EQ results in a cellulosic 'waste' product that is a potential feedstock to Leaf's Glycell™ process further extending the produce opportunities. Although we have not considered any speculative upside in our valuation of Leaf post completion of the Proposed Transaction, we recognise that investors may place speculative value on EQ as a stand-alone business and/or added value towards Leaf upon successful integration by achieving synergy benefits. This may be attractive to investors who have an appetite for speculative gains and may result in greater coverage by analysts, resulting in greater liquidity of the market in Leaf's shares.

- If shareholders do not approve the Proposed Transaction, the Company would have to pursue alternative funding avenues and identify new complementary acquisition targets which may require extensive management focus and expense to secure in order to provide shareholders with a new value proposition. It is possible that Leaf's shares may remain suspended from trading until such time.

In our opinion, the Richards Resolutions are **fair and reasonable**. Our principal reasons for reaching this opinion are:

Fairness and Reasonableness – Richards Resolutions

- In Section 14.2 of this report, we assessed the value of the EQ securities on a minority basis that Leaf may acquire from the Richards Entities to be AU$1,060,086.

- In Section 14.3 of this report, we assessed the consideration being offered to the Richards Entities in a range of AU$1,024,064 to AU$1,155,338.

- As the value of the EQ securities that Leaf may acquire from the Richards Entities (AU$1,060,086) is within the range of the consideration being offered to the Richards Entities (AU$1,024,064 to AU$1,155,338), we have concluded that the Richards Resolutions are **fair**.

- As the Richards Resolutions are Essential Resolutions and form part of the overall Proposed Transaction, the factors set out in Section 12 of this report are equally applicable to the Richards Resolutions.

4. Structure of this report

The remainder of this report is divided into the following sections:

5. Purpose of the report

This report has been prepared to meet the following regulatory requirements:

- **Corporations Act 2001 – Section 611**

  Section 606 of the Act contains a general prohibition on the acquisition of shares in a company if, as a result of the acquisition, any person increases his or her voting power in the company:

  (a) from 20% or below to more than 20%; or

  (b) from a starting point that is above 20% and below 90%.

  Section 611 of the Act contains an exception to the Section 606 prohibition. For an acquisition of shares to fall within the exception, the acquisition must be approved in advance by a resolution passed at a general meeting of the company in which shares will be acquired.

  Leaf is seeking shareholder approval for the Proposed Transaction under item 7 of Section 611 of the Act, as the voting power of Ray Mountfort will increase from 20% or below to more than 20% as provided by Section 606 of the Act.

- **ASX Listing Rules 10.1 and 10.2**

  Listing Rules 10.1 and 10.2 require a company to obtain shareholder approval at a general meeting when the disposal or acquisition of a substantial asset, which has a value in excess of 5% of the shareholders' funds, as set out in the latest financial statements given to the ASX, is to be made to or from:

  (i) a related party;

  (ii) a subsidiary;

  (iii) a substantial shareholder who is entitled to at least 10% of the voting securities, or a person who was a substantial shareholder entitled to at least 10% of the voting securities at any time in the 6 months before the transaction;

  (iv) an associate of a person referred to in paragraphs (i), (ii) or (iii) above; or

  (v) a person whose relationship to the entity or a person referred to above is such that, in the ASX's opinion, the transaction should be approved by security holders.

  As

  - Mr Ken Richards is a director of Leaf and also a director and shareholder of the Target; and

  - as the latest financial statements given by Leaf to the ASX show that Leaf had a negative equity, the Proposed Transaction exceeds 5% of the equity interest of Leaf and hence

  Listing Rule 10.1 will apply to the Proposed Transaction.

- **ASIC Regulatory Guides**

  This report has been prepared in accordance with the ASIC Regulatory Guides and more particularly:

  RG 111 – Content of Expert Reports ("RG111")

  RG 111.24 An issue of shares by a company otherwise prohibited under s606 may be approved under item 7 of s611 and the effect on the company's shareholding is comparable to a takeover bid. Examples of such issues approved under item 7 of s611 that are comparable to takeover bids under Ch 6 include:

  (a) a company issues securities to the vendor of another entity or to the vendor of a business and, as a consequence, the vendor acquires over 20% of the company incorporating the merged business. The vendor could have achieved the same or a similar outcome by launching a scrip takeover for the company.

  RG 111.55 Generally, ASIC expects an expert who is asked to analyse a related party transaction to express an opinion on whether the transaction is 'fair and reasonable' from the perspective of non-associated members.

  RG 111.54 Where the related party transaction is one component of a broader transaction or a series of transactions involving non-related parties (such as a control transaction), the expert should carefully consider what level of analysis of the related party aspect is required: see also RG 111.4. In this consideration, the expert should bear in mind whether the report has been sought to ensure that members are provided with sufficient information to decide whether to approve giving a financial benefit to the related party as well as the broader transaction.

  RG 111.58 Where the proposed transaction consists of an asset acquisition by the entity, it is 'fair' if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired. Where the financial benefit given by the entity is securities in the entity and the consideration is securities in another entity held by a related party, the value of the entity's securities should be compared to the value of the securities it is purchasing.

  RG 111.10 It has long been accepted in Australian mergers and acquisitions practice that the words 'fair and reasonable' in s640 establish two distinct criteria for an expert analysing a control transaction:

  (a) is the offer 'fair'; and

  (b) is it 'reasonable'?

  That is, 'fair and reasonable' is not regarded as a compound phrase.

  RG 111.11 Under this convention, an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer[1]. This comparison should be made:

  (a) assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length; and

[1] In an ASIC Corporate Finance Liaison presentation in May 2013, ASIC has expressed the view that transactions purpose to item 7 of Section 611 should be assessed by "comparing the fair market value of the company's shares pre-transaction on a control basis, with the fair market value of the company's shares post-transaction on a minority basis".

(b) assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or 'portfolio' parcel of shares.

RG 111.12 An offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111.27 There may be circumstances in which the allottee will acquire 20% or more of the voting power of the securities in the company following the allotment or increase an existing holding of 20% or more, but does not obtain a practical measure of control or increase its practical control over that company. If the expert believes that the allottee has not obtained or increased its control over the company as a practical matter, then the expert could take this outcome into account in assessing whether the issue price is 'reasonable' if it has assessed the issue price as being 'not fair' applying the test in RG 111.11.

ASIC Regulatory Guide 111 requires that the Proposed Transaction be assessed as if it was a takeover of Leaf. In assessing a takeover bid, Regulatory Guide 111 states that the expert should consider whether the Proposed Transaction is both "fair" and "reasonable".

- **General**

The terms "fair" and "reasonable" are not defined in the Act, however, guidance as to the meaning of these terms is provided by ASIC in Regulatory Guide 111. For the purpose of this report, we have defined them as follows:

Resolution 3

Fairness	the Proposed Transaction is "fair" if the value of the minority shares held by the Non-Associated Shareholders' in Leaf after the Proposed Transaction is equal to or greater than the control value of the shares in Leaf before the Proposed Transaction.
Reasonableness	the Proposed Transaction is "reasonable" if it is fair. It may also be "reasonable" if, despite not being "fair" but after considering other significant factors, shareholders should vote in favour of the Proposed Transaction in the absence of a superior proposal being received.

What is fair and reasonable for the Non-Associated Shareholders should be judged in all the circumstances of the proposal.

The methodology that we have used to form an opinion as to whether the Proposed Transaction is fair and reasonable, is summarised as follows:

(i) In determining whether the Proposed Transaction is fair, we have:

- assessed the value of Leaf before the Proposed Transaction and determined the control value of one LER share;
- assessed the value of Leaf after the Proposed Transaction and determined the minority value of one LER share; and

- compared the control value of one LER share before the Proposed Transaction with the minority value of one LER share after the Proposed Transaction.

(ii) In determining whether the Proposed Transaction is reasonable, we have analysed other significant factors that the Non-Associated Shareholders should review and consider prior to accepting or rejecting the Proposed Transaction.

The Richards Resolutions

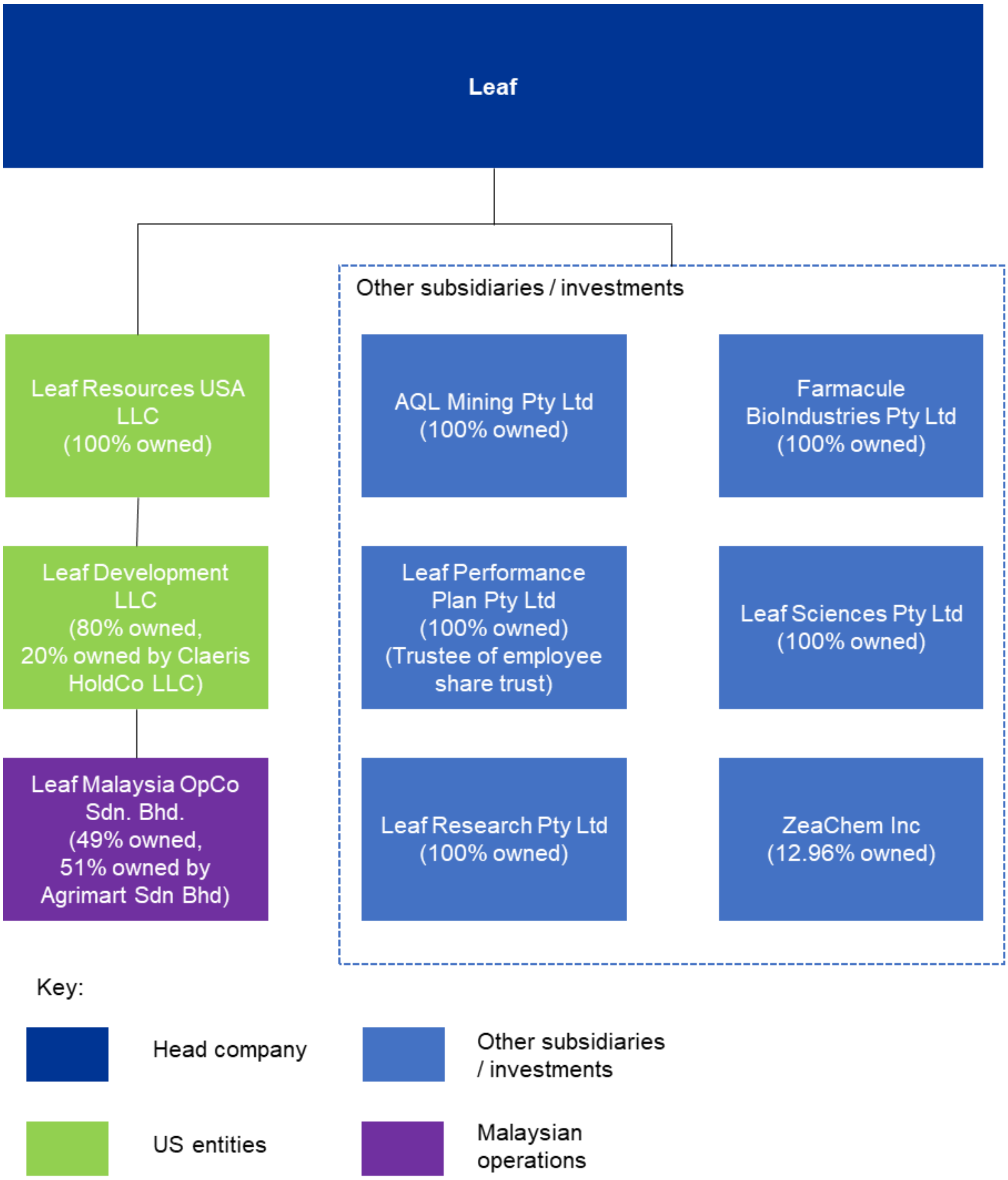
In assessing the fairness of the Richards Resolutions, we have compared the value of the Leaf securities to be issued pursuant to these resolutions with the value of the EQ shares to be acquired by Leaf from the Richards Entities. As the Richards Entities are a minority shareholder in Leaf and will remain a minority shareholder after the Proposed Transaction, in making this comparison no allowance has been made for a control premium.

6. Leaf - key information

6.1 Background

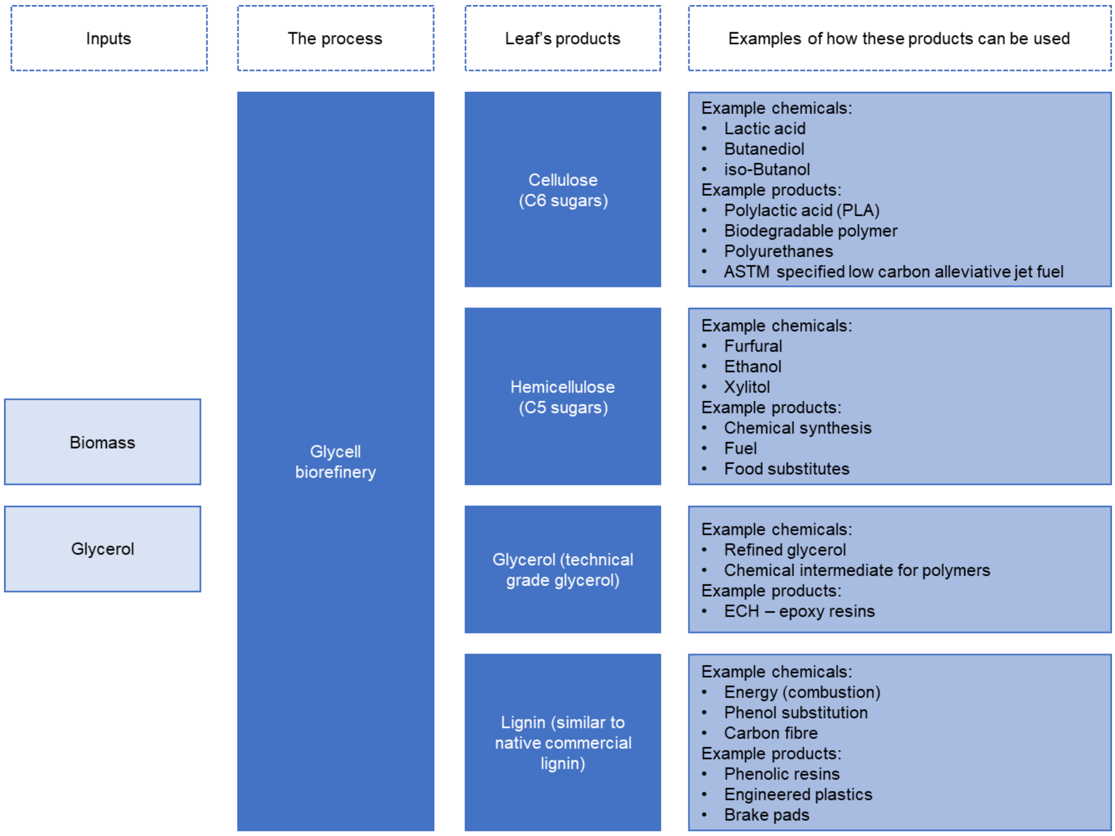
6.1.1 Leaf operates in the clean technology sector and specialises in the research, development and commercialisation of the conversion of non-food biomass into other products which can be used as a substitute for similar products made from fossil fuels. Leaf was formerly known as Leaf Energy Limited and changed its name in August 2014, its corporate office is located in Darra, Queensland, Australia.

The group structure of Leaf and its subsidiaries/investments is presented below.



Over the past decades there has been increased interest in greener and more sustainable methods of producing those outputs which have historically been sourced from fossil fuels such as oil and coal. Due to this increased interest, there is considerable opportunity and upside for those that develop commercially viable conversion processes. As a result, there are a number of organisations involved in this space, either developing or have developed their own processes to create such substitutes from plants and animal materials. Of these processes, some use crops specially grown for the purpose of making these fossil fuel substitutes, others, which some consider to be more environmentally friendly, use waste materials and non-food sources.

6.1.2 Leaf's proprietary system is called 'Glycell™' and it converts or breaks down waste plant biomass into components including industrial sugars, lignin and refined glycerol, which in turn can be used to make a number of products including fuels (for motor vehicles and planes), plastics, food substitutes and cosmetics. The diagram below provides further details of the outputs but also the potential applications through the use of Glycell™.



Source: Leaf investor update – Feb 2020

6.1.3 The biomass inputs which can be used in the Glycell™ process vary, but include a range of low cost sources of sugars including:

- Forestry waste/offcuts from the processing of trees, such as eucalyptus and poplar;
- Bagasse, the fibrous residue from processing sugarcane; and
- Agricultural residues including palm empty fruit bunch (left over from the production of palm oil), wheat straw and stover (the leaves and stalks left over from crops such as corn or soybean).

The Glycell™ process has been proven in a pilot plant and shown to yield higher carbohydrate output levels, depending on the biomass feedstock and composition, compared to other conversion processes.

6.1.4 Leaf has filed the following patent applications globally with respect to its intellectual property portfolio which are at various stages of the application process:

- a patent via Leaf Sciences Pty Ltd ("Leaf Sciences") relating to the conversion of plant biomass to cellulose and then to cellulosic sugars;

- a patent via Leaf Sciences relating to the conversion of plant biomass into cellulose for cellulose fibre; and

- a patent via Leaf Research Pty Ltd ("Leaf Research") relating to methods for extracting silica from organic material and more particularly plant material, such as rice hulls, rice straw and sugarcane bagasse.

The two patents filed via Leaf Sciences have been granted in Australia. In addition to the above, provisional applications were filed for separations technologies in collaboration with Amalgamated Research Inc and Leaf owns the rights through a deed of assignment.

6.1.5 In order to prove that the Glycell™ process works on a commercial scale, Leaf has devised and commenced the following two key projects:

- Malaysian Project – via Leaf Malaysia OpCo Sdn. Bhd. in partnership with Agrimart Sdn Bhd ("Agrimart"), a Malaysian entity, who owns 51% of this project in order to meet Malaysian government funding requirements; and

- Queensland Project – in partnership with Gevo Inc ("Gevo"), a US listed group.

6.1.6 Malaysian Project (39.2% ownership)

Leaf is in the process of developing a biorefinery in Malaysia in partnership with Agrimart. In order to assist in funding such projects, the Malaysian government is offering funding under an Industrial Collaboration Program ("ICP"), whereby if a project meets certain criteria, the Malaysian government will assist in funding that project. Leaf has applied and met the first stage of the ICP and is now in the process of applying to meet the second stage of the process.

Leaf estimates that a successful outcome regarding the ICP could provide US$5 million and facilitate funding of the Malaysian Project through to a bankable feasibility report. The progress in relation to this project has been delayed due to COVID-19 and restrictions on travel into Malaysia being put in place.

Leaf's investment in the Malaysian Project (as shown in the group structure above) is held via a US holding company (Leaf Development LLC) of which it owns 80%. Accordingly, the effective ownership of this project is 39.2% (49% x 80%). The remaining 20% of the US holding company is owned by Claeris HoldCo LLC, a product developer specialising in the bioeconomy.

6.1.7 Queensland Project

Leaf entered a joint development agreement with Gevo who are focused on the commercialisation of fuels from sustainable alternatives such as those materials which can be used in the Glycell™ process. The fuels are for purposes including aviation and motor vehicle applications.

The joint development agreement includes three phases designed to ultimately achieve an end project which can be used to prepare a bankable feasibility report. The first phase is to develop the feasibility of a potential manufacturing facility in Queensland, using the Glycell™ technology. The subsequent phases are to involve assessing the commercial development and commercialisation of the technology.

Gevo and Leaf will carry their own costs during this first phase with further funding to be determined after completion of this stage. The progress in relation to this project has also been delayed due to COVID-19.

6.1.8 Leaf's subsidiary AQL Mining Pty Ltd was previously involved in a joint operation regarding the mining and sale of soil and gravel from two mining tenements in Karratha, Western Australia. These operations have now closed.

6.2 Directors

Leaf's Board of Directors and other key executives at the date of this report are presented in the table below.

Table 3

Leaf Resources Ltd Board of Directors
Mr Douglas Rathbone (Chairman)
Mr Alex Baker (Managing Director, CEO)
Mr William Henry Baum (Non Executive Director)
Mr Matthew Morgan (Non Executive Director)
Mr Ken Richards (Non Executive Director)

Source: ASX

6.3 Share capital

6.3.1 As at the date of this report, Leaf had on issue 354,099,144 fully paid ordinary shares. The major shareholders of Leaf and their associates are presented in the table below and they held approximately 23% of the issued ordinary capital of Leaf.

Table 4

Leaf Resources Ltd Shareholder name	Number of shares held	Percentage interest
Tribeca Investment Partners Pty Ltd	40,486,527	11.43%
Kenneth Richards & associated entities	26,844,389	7.58%
Douglas Rathbone & associated entities	14,683,636	4.15%
	82,014,552	23.16%

Source: ASX

6.3.2 As at the date of this report, shares held by strategic shareholders, directors and employees total 118,842,209[2] Leaf shares or 33.6% of the issued capital. The balance of the issued capital is 235,256,935 Leaf shares or 66.4% of the issued capital and this represents the 'free float' that is readily tradeable on market.

[2] sourced from S&P Capital IQ

6.3.3 Leaf also has 12,473,718 options and 972,599 performance rights on issue that are convertible into ordinary shares of Leaf. We have presented the terms of these securities in the table below.

Table 5

Leaf Resources Ltd Options & Performance Rights	Total number	Exercise price	Expiry date
Performance rights	777,780	nil	15/01/2021
Options	1,557,052	$0.1375	15/07/2021
Options	3,000,000	$0.145	23/12/2021
Options (Directors)	2,000,000	$0.220	23/12/2021
Options	800,000	$0.220	3/07/2022
Performance rights	194,819	nil	27/11/2022
Options	333,333	$0.150	19/03/2023
Options	783,333	$0.150	22/05/2023
Options	1,500,000	$0.150	14/09/2023
Options	1,500,000	$0.150	1/02/2024
Options	1,000,000	$0.250	1/02/2024

Source: ASX

Having regard to the above table, we have not treated these securities on an as converted basis in the balance of this report after considering their expiry dates and whether the options are in the money based on the last closing price of Leaf, prior to the trading halt that was the subject of the Proposed Transaction, of AU$0.019 per share (refer to Section 7.3 of this report).

6.4 Statements of financial position

Leaf's consolidated statements of financial position as at 30 June 2018, 30 June 2019 and 30 June 2020 are presented in the table below.

Table 6

Leaf Resources Ltd Consolidated Statement of Financial Position	Audited 30-Jun-18 AU$	Audited 30-Jun-19 AU$	Audited 30-Jun-20 AU$
Current Assets			
Cash and cash equivalents	558,052	293,601	10,725
Trade and other receivables	1,015,697	2,902,215	386,477
	1,573,749	3,195,816	397,202
Non-Current Assets			
Investments accounted for using the equity method	368,462	-	-
Property, plant and equipment	811,574	28,511	11,440
Intangible assets	-	-	-
	1,180,036	28,511	11,440
Total Assets	2,753,785	3,224,327	408,642
Current Liabilities			
Trade and other payables	1,178,515	1,289,665	649,168
R&D financing payable	-	1,905,722	-
Promissory notes payable	-	259,107	-
Employee benefits	120,693	304,688	188,905
Provisions	50,000	50,000	50,000
	1,349,208	3,809,182	888,073
Non-Current Liabilities			
Employee benefits	34,390	753	695
	34,390	753	695
Total Liabilities	1,383,598	3,809,935	888,768
Net Assets	1,370,187	(585,608)	(480,126)
Equity			
Issued capital	51,128,441	55,749,498	56,757,178
Reserves	1,163,367	922,969	927,541
Accumulated losses	(50,921,621)	(57,258,075)	(58,164,845)
Total Equity	1,370,187	(585,608)	(480,126)

Source: Leaf's annual reports for the financial years ended 30 June 2018, 2019 and 2020

6.5 Operating performance

Leaf's consolidated statements of comprehensive income for the financial years ended 30 June 2018 ("FY18"), 2019 ("FY19") and 2020 ("FY20") are presented in the table below.

Table 7

Leaf Resources Ltd Consolidated Statement of Profit or Loss And Other Comprehensive Income	Audited FY18 AU$	Audited FY19 AU$	Audited FY20 AU$
Other income	958,207	3,246,269	668,832
Mining lease expenses	(5,308)	(5,024)	(5,799)
Depreciation, amortisation	(8,578)	(1,601,036)	(6,253)
Impairment	-	-	(125,162)
Employee benefits expense	(1,070,658)	(1,055,326)	(154,539)
Directors' & officers' fees & CEO	(730,092)	(650,315)	(408,716)
Business operation	(156,000)	(124,446)	(79,881)
Finance expenses	9,801	(251,971)	(110,373)
Professional fees	(124,486)	(607,043)	(239,600)
Investor relations & corporate advisory	(307,943)	(245,807)	(138,921)
Travel and accommodation	(277,197)	(492,296)	(88,747)
Research and development	(1,330,574)	(3,362,746)	(114,404)
Patent and licence fees	(26,152)	(135,705)	(119,169)
Share of loss of equity accounted associate	(1,247,096)	(1,477,493)	(9,032)
Other expenses	(69,896)	(15,449)	(18,212)
Loss before income tax	(4,385,972)	(6,778,388)	(949,976)
Income tax expense	-	-	-
Loss for the year from continuing operations	(4,385,972)	(6,778,388)	(949,976)
Loss from discontinued operations	-	-	-
Loss for the year	(4,385,972)	(6,778,388)	(949,976)
Other comprehensive income for the year, net of tax			
Exchange differences on translating foreign operations	(8,238)	81,866	165
Income tax on items that may be reclassified to profit or loss	-	-	-
	(8,238)	81,866	165
Total comprehensive loss for the year	(4,394,210)	(6,696,522)	(949,811)

Source: Leaf's annual reports for the financial years ended 30 June 2018, 2019 and 2020

6.6 Cash flow statements

Leaf's consolidated statements of cash flows for FY18, FY19 and FY20 are presented in the table below.

Table 8

Leaf Resources Ltd Consolidated Statement of Cash Flows	Audited FY18 AU$	Audited FY19 AU$	Audited FY20 AU$
Cash flows from operating activities			
Receipts from customers	2,990	353,655	-
Payments to suppliers & employees	(3,346,343)	(6,583,852)	(1,691,256)
Interest received	6,494	544	149
Interest paid	-	-	(190,558)
Government income	-	-	62,000
R&D tax incentive refund	645,813	961,192	2,827,883
Net cash used in operating activities	(2,691,046)	(5,268,461)	1,008,218
Cash flows from investing activities			
Payments for investment in equity accounted joint venture	(1,537,554)	(1,027,165)	(9,032)
Purchase of property, plant and equipment	(521,494)	(700,380)	(3,964)
Net cash provided by / (used in) investing activities	(2,059,048)	(1,727,545)	(12,996)
Cash flows from financing activities			
Proceeds from the issue of share capital	4,878,365	4,966,000	602,197
Share issue transaction costs	(143,946)	(289,445)	(25,133)
Proceeds from borrowings	-	2,055,000	75,000
Repayment of borrowings	-	-	(1,805,000)
Payment for loan to associate	-	-	(125,162)
Net cash provided by financing activities	4,734,419	6,731,555	(1,278,098)
Net increase/(decrease) in cash and cash equivalent	(15,675)	(264,451)	(282,876)
Cash and cash equivalent at beginning of year	573,727	558,052	293,601
Cash and cash equivalent at end of year	558,052	293,601	10,725

Source: Leaf's annual reports for the financial years ended 30 June 2018, 2019 and 2020

7. Valuation of Leaf before the Proposed Transaction

7.1 Value definition

PKF Corporate's valuation of Leaf is on the basis of 'fair market value', defined as:

'the price that could be realized in an open market over a reasonable period of time given the current market conditions and currently available information, assuming that potential buyers have full information, in a transaction between a willing but not anxious seller and a willing but not anxious buyer acting at arm's length'.

7.2 Valuation methodologies

In selecting appropriate valuation methodologies, we considered the applicability of a range of generally accepted valuation methodologies. These included:

- share price history;
- capitalisation of future maintainable earnings;
- net present value of future cash flows;
- asset based methods;
- comparable market transactions; and
- alternate acquirer.

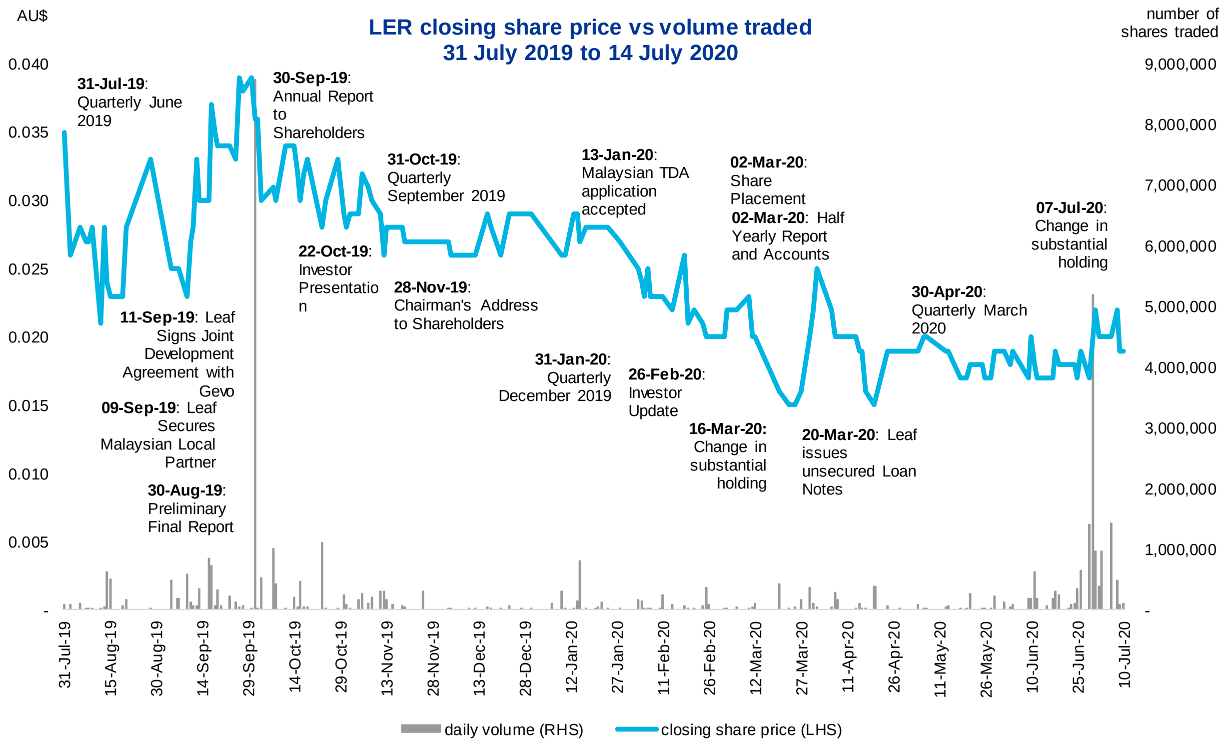
7.3 Share price history

7.3.1 The share price history valuation methodology values a company based on the past trading in its shares. We normally analyse the share prices up to a date immediately prior to the date when a takeover, merger or other significant transaction is announced to remove any price speculation or price escalations that may have occurred subsequent to the announcement of any proposed transaction.

7.3.2 As the share price history of Leaf will incorporate all publicly available information, we consider that the share price history is an appropriate methodology to consider in assessing the value of a share in Leaf.

7.3.3 We note that the Proposed Transaction was announced on 16 July 2020 following a trading halt that took effect on 14 July 2020. Following the announcement of the Proposed Transaction, the shares in Leaf have remained in suspension. We have set out below a graph showing the daily closing share price and volume of Leaf shares up to the date of the trading halt relating to the Proposed Transaction as well as a selection of market sensitive announcements on the ASX.

Graph 1



Source: ASX, PKF Corporate analysis

As can be seen from the graph above, over the 12 month period leading up to the trading halt Leaf's share price has continued to trend downwards on relatively low volume. However, over the one month period leading up to the trading halt Leaf's share price has traded within a range of AU$0.016 to AU$0.022 per LER share on slightly increased volume leading up to the days following the Company's announcement to the ASX regarding its trading halt with respect to the Proposed Transaction. The last day that Leaf shares were traded was on 10 July 2020.

On 2 March 2020, the Company announced to the ASX a capital raising[3] at AU$0.020 per LER share (the "Share Placement") as well as receipt of a loan from the Company's Chairman of AU$75,000 which, following receipt of shareholder approval, converted to 3,750,000 LER shares at an issue price of AU$0.020 per LER share. Prior to this announcement, the last trade in LER shares was priced at AU$0.020 per LER share and, as such, the capital raised by the Company was not at any discount.

On 29 June 2020 and 30 June 2020, the trading in Leaf shares saw an increase in volume and although there were no ASX announcements that may explain this increase in volume, we consider that the catalyst was due to shareholders selling as a result of the end of financial year period.

[3] On 2 March 2020, Leaf announced to the ASX the completion of a share placement of 5.25m fully paid ordinary shares to raise AU$105k at 2 cents a share and a loan from the Company's Chairman, Mr Doug Rathbone, of $75k convertible into LER shares at 2 cents a share following receipt of shareholder approval.

7.3.4 We have also examined the recent share prices and trading volumes in Leaf shares up to the date of the trading halt with respect to the Proposed Transaction including the volume weighted average price ("VWAP") of Leaf shares based on closing daily prices on the ASX for business trading dates. We have set out our analysis in the table below.

Table 9

Leaf Resources Ltd	Shares Traded		VWAP	Share Price (AU)	
Share price analysis	Number	Value (AU)	AU	Low	High
5 days to 14 July 2020	672,729	$14,260	$0.021	$0.018	$0.022
10 days to 14 July 2020	4,423,088	$91,213	$0.021	$0.017	$0.022
20 days to 14 July 2020	12,947,532	$254,081	$0.020	$0.016	$0.022
30 days to 14 July 2020	14,314,606	$278,706	$0.019	$0.016	$0.022
60 days to 14 July 2020	15,373,557	$298,415	$0.019	$0.016	$0.022

Source: ASX, PKF Corporate analysis

As can be seen from the above table, the VWAP has slightly increased over the past 60 business trading days up to 14 July 2020 during which the Leaf shares traded in a range of AU$0.016 to AU$0.022. During the more recent trading period leading up to the trading halt with respect to the Proposed Transaction, Leaf shares traded in a range of AU$0.017 to AU$0.022 per share.

7.3.5 As set out in paragraph 6.3.2 of this report, the 'free float' of Leaf shares that is readily tradeable on market comprise of 235,256,935 shares. We have also calculated the volume of shares traded in Leaf over the past 60 business trading days of the 'free float'. We have set out our analysis in the table below.

Table 10

Leaf Resources Ltd		% of free float traded				
Share volume		5 days	10 days	20 days	30 days	60 days
Number of shares traded to 14 July 2020		672,729	4,423,088	12,947,532	14,314,606	15,373,557
LER free float	235,256,935	0.29%	1.88%	5.50%	6.08%	6.53%

Source: ASX, PKF Corporate analysis

7.3.6 Based on the above information and our analysis, we consider that the market in Leaf shares is relatively illiquid. The closing share price of a Leaf share prior to the trading halt that was the subject of the Proposed Transaction was AU$0.019 per share.

7.3.7 The shares issued under the Share Placement and loan conversion described in paragraph 7.3.3 of this report were completed at a share price of AU$0.020 per Leaf share and resulted in the issue of a further 8,900,000 new LER shares which represent approximately 2.5% of the current shares on issue in Leaf. Despite the illiquidity in tradeable Leaf shares, the Share Placement demonstrated the ability of Leaf to raise funds and, as such, we have considered the share price valuation methodology in assessing the market value of Leaf shares. Accordingly, we have formed the opinion that the Leaf shares have a market value in a range of AU$0.019 to AU$0.021 per share as at 14 July 2020.

7.3.8 The share prices upon which we have formed our opinion reflect the prices at which minority parcels of shares are traded on a daily basis and, as such, do not incorporate a control premium. Accordingly, we have considered the application of a control premium which represents the difference between the price that would have to be paid for a share to which a controlling interest attaches and the price at which a share which does not carry with it control of Leaf could be acquired.

7.3.9 In assessing the control premium to be applied to the share price of Leaf, we have relied on the relevant matrix from the RSM Control Premium Study – 2017 applicable to Leaf. We have summarised this research in the table below.

Table 11

Analysis by	Criteria	Control premium 20 days pre-announcement Average	Median
All transactions		34.50%	27.00%
Industry	Other	31.00%	22.00%
Consideration type	Scrip	30.70%	19.70%
Size	<= $25m	46.80%	34.20%

Source: RSM Control Premium Study - 2017

7.3.10 The actual control premium paid is transaction specific and depends on a range of factors, such as the level of synergies available to the purchaser, the level of competition for the assets and the strategic importance of the assets. We note that the above research sets out statistical information about actual control premia paid and, as such, includes an unknown uplift on account of potential acquisition synergy benefits. We are of the opinion that the control premium in a transaction that did not include expected synergies would be lower.

7.3.11 After considering the above, we have applied a control premium in a range of 19.5% to 27.0% to the minority share price of one Leaf share in a range of AU$0.019 to AU$0.021 per share. We have summarised the results of this calculation in the table below.

Table 12

Leaf Resources Ltd Share price methodology	Low	High
Value per LER share (minority)	AU$0.019	AU$0.021
Control premium	19.50%	27.00%
Valuer per LER share (control)	**AU$0.023**	**AU$0.027**

Source: PKF Corporate analysis

7.3.12 Having regard to the above, we have concluded that the control value of a Leaf share is in a range of **AU$0.023 to AU$0.027 per share** as assessed under the share price valuation methodology.

7.4 Capitalisation of future maintainable earnings

7.4.1 Capitalisation of earnings is a method commonly used for valuing manufacturing and service companies and, in our experience, is the method most widely used by purchasers of such businesses. This method involves capitalising the earnings of a business at a multiple which reflects the risks of the business and its ability to earn future profits. There are different definitions of earnings to which a multiple can be applied. The traditional method is to use net profit after tax. Another common method is to use Earnings Before Interest and Tax, or EBIT. One advantage of using EBIT is that it enables a valuation to be determined which is independent of the financing and tax structure of the business. Different owners of the same business may have different funding strategies and these strategies should not alter the fundamental value of the business.

7.4.2 As Leaf does not have a history of profitable trading, we consider that the capitalisation of maintainable earnings is not an appropriate methodology to use to value the Leaf shares.

PKF

7.5 Net present value of future cash flows

7.5.1 An analysis of the net present value of the projected cash flows of a business and/or asset (or discounted cash flow technique) is based on the premise that the value of the business and/or asset is the net present value of its future cash flows. This methodology requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value of the business and/or asset remaining at the end of the forecast period.

7.5.2 Leaf generated negative cash flows from operations during FY18 and FY19 (refer to Section 6.6 of this report). During FY20, Leaf generated positive cash flows from operations, however, this was due to approximately AU$2.828 million in R&D tax incentive refunds received.

7.5.3 As Leaf does not have any current long term cash flow forecasts available that can be used to value any of its projects, the net present value of the future cash flows methodology cannot be used to value Leaf or any of its assets.

7.6 Asset based methods

7.6.1 This methodology is based on the realisable value of a company's identifiable net assets. Asset based valuation methodologies include:

(a) Net assets

The net asset valuation methodology involves deriving the value of a company or business by reference to the value of its assets. This methodology is likely to be appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings, such as property holding companies and investment businesses that periodically revalue their assets to market. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realization costs.

As at 30 June 2020, Leaf reported a net asset deficiency as per the audited statement of financial position of approximately AU$480,000 (refer to Section 6.4 of this report). We provide the following comments:

- Since 30 June 2020, Leaf received a cash advance of AU$600,000 from EQ and AU$278,640 as an R&D Tax Incentive refund; and

- Leaf's major assets are its developed intellectual properties, in particular Glycell™. We note that past research and development costs associated with Glycell™ and other intellectual properties have been expensed as incurred, rather than capitalised and reflected as an asset on Leaf's statement of financial position. This is due to the application of Accounting Standards where the past expenditure pertaining to Leaf's intangible assets cannot be capitalised until the generation of future economic benefits can be quantified.

In light of the above comments, we have adjusted the net assets of Leaf and reflected our adjustments in the table below and in the corresponding notes.

Table 13

Leaf Resources Ltd Net asset approach	notes	AU$
Reported net assets as at 30 June 2020		(480,126)
Proceeds from borrowings	1	-
Receipt of R&D Tax Incentive	2	-
Investments accounted for using the equity method	3	-
Intangible assets	4	-
Adjusted net assets		(480,126)

Source: Leaf's annual report for the financial year ended 30 June 2020, ASX, PKF Corporate analysis

Note 1: As a condition of the Agreement, Leaf received cash funds from EQ under the Loan during July 2020 for the repayment of existing debt and general working capital[4]. As the additional amount of cash totalling AU$600,000 was received after 30 June 2020 it is not reflected as part of the net assets of Leaf as at this date. However, the overall net impact of the Loan on the net assets of Leaf will be nil. Accordingly, we have not adjusted the net assets of Leaf given the nil net impact and we have assumed no material change to Leaf's other assets or its liabilities as a result of the Loan.

Note 2: On 26 October 2020, Leaf announced to the ASX the receipt of an R&D Tax Incentive totalling AU$278,640 and recorded as a receivable as at 30 June 2020. As the overall net impact of this cash received on the net assts of Leaf will be nil, an increase to cash and a decrease to receivables, we have not adjusted the net assets of Leaf given the nil net impact.

Note 3: Leaf holds an 80% equity interest in Leaf Development, LLC ("Leaf Development"), a USA entity incorporated to develop biorefinery plants. We understand that Leaf Development has a net asset deficiency and, as such, Leaf's equity interest in this entity is nil. Leaf Development also holds Leaf's interest in its two major projects (refer to Section 6.1 of this report) and as these projects are yet to be commercialised, we do not consider they hold any material value at this point in time. Further, Leaf holds an equity interest in ZeaChem Inc which has been written down to nil by Leaf.

Note 4: As Leaf's intellectual properties are yet to be commercialised, in particular Glycell™, they cannot be objectively measured as there are currently no known future economic benefits to be generated from such assets.

Having regard to our comments above and calculations in table 13 of this report, Leaf has a deficiency of net assets.

The net asset backing of Leaf does not attribute any value to any intangible assets of Leaf, in particular its trademarked intellectual property, Glycell™. In light of this observation and based on the closing share price of AU$0.019 per Leaf share prior to the trading halt that was the subject of the Proposed Transaction, Leaf had a market capitalisation of AU$6.728 million (AU$0.019 per Leaf share x 354,099,144 ordinary shares on issue). As Leaf has a deficiency of net assets and based on its market capitalisation of AU$6.728 million, this implies that the market is placing some value on Leaf's intellectual properties.

[4] On 16 July 2020, Leaf announced to the ASX the Proposed Transaction including the Loan whereby EQ advance AU$600k to Leaf for the repayment of existing debt and general working capital. The Loan will accrue interest at a rate of 10% per annum and is repayable in cash 12 months from the date of the advance (the "Maturity Date"). The Loan amount and all accrued but unpaid interest is repayable on the Maturity Date. The Loan is secured over all of Leaf's present and after-acquire property.

In light of the above comments, we have concluded that the net asset approach does not reflect the collective market value of Leaf's intangible assets such as its intellectual properties and joint venture projects or Leaf as a listed corporate shell and, as such, we do not consider this to be a valid valuation methodology to be used to value Leaf shares at this point in time.

(b) Orderly realisation of assets

The orderly realisation of assets method estimates the fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

In an orderly realisation, the Leaf shareholders would be left with cash after the realisation of its assets and payment of its liabilities, and a listed corporate shell, which could be utilised to acquire a new asset. We provide the following comments:

- Leaf has a reported book value of approximately AU$409,000 in assets, of which approximately AU$10,700 relates to cash assets;

- Approximately AU$386,000 of Leaf's assets relate to receivables which includes the amount of AU$278,640 received as an R&D Tax Incentive refund subsequent to 30 June 2020. Under an orderly realisation of assets approach, we would not expect 100% of the remaining book value of these assets to be realised in full;

- Approximately AU$11,000 of Leaf's reported assets relate to fixed assets. Under an orderly realisation of assets approach, we would also not expect 100% of the book value of fixed assets to be realised in full;

- Under an orderly realisation approach, we would expect realisation costs to be incurred in completing an orderly realisation of Leaf's assets, although we would not expect them to be substantial given the nature of the assets held by Leaf; and

- Under an orderly realisation approach, Leaf would also incur redundancy costs in relation to the termination of its employees.

As Leaf has a deficiency of net assets of approximately AU$480,000 and after considering our comments above, the value of Leaf as a corporate listed shell would need to be in excess of AU$1 million under an orderly realisation approach in order to produce a meaningful residual asset value of Leaf.

There is currently no reliable market data on the value of a listed corporate shell that can be used for a change of business activity with new large shareholders. Our experience together with discussions with several entrepreneurs, our review of similar recent transactions and the values attributed to shells by corporate advisors would indicate that the value is in a range of AU$100,000 to AU$2 million depending on the following factors:

- the spread of shareholders with marketable parcels;
- whether all statutory obligations in respect of audited accounts, tax returns etc are current;
- whether there is outstanding litigation or contingent liabilities;
- whether all outstanding creditors have been paid or legal agreements are in place to satisfy settlement of all of their claims; and
- the amount of cash that is held in the entity at the date of the proposed restructure.

After considering all of the above factors as well as the current suspended status of Leaf shares, we do not consider that the value of Leaf's listed corporate shell would exceed AU$1 million and, as such, would not produce a meaningful residual asset value that can be attributed to Leaf under an orderly realisation of assets approach.

In light of the above comments, we have concluded that an orderly realisation of assets approach is not a valid valuation methodology to be used to value Leaf shares at this point in time.

(c) Liquidation of assets

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a short time frame.

We consider that this methodology is an inappropriate valuation methodology to use as Leaf has the support of its shareholders and an ability to raise capital as demonstrated in the recent Share Placement.

PKF

7.7 Comparable market transactions

7.7.1 Industry specific methods estimate market values using rules of thumb for a particular industry. Generally, rules of thumb provide less persuasive evidence of the market value of an asset than other valuation methods because they may not account for specific factors.

7.7.2 We are not aware of any specific rules of thumb to be applied to valuing Leaf's Glycell™ intellectual property. In considering the application of this methodology with regard to Leaf's interest in the Malaysian Project and the Queensland Project, we are not aware of any transaction metrics available to assess the value of Leaf's interest in these two major projects. Accordingly, we have not used the comparable market transaction valuation methodology to value Leaf nor its assets.

7.8 Alternate acquirer

7.8.1 The value that an alternative offeror may be prepared to pay to acquire Leaf is a relevant valuation methodology to be considered.

7.8.2 We are not aware of any offers for the Leaf shares nor its intellectual property assets and we can see no reason as to why an offer would be initiated at this time without the consent and support of its shareholders.

7.9 Conclusion

7.9.1 In the current circumstances of Leaf, we have only been able to apply the share price valuation methodology to assess the value of Leaf shares. We have therefore concluded the fair market value of a Leaf share lies in a range of **AU$0.023 to AU$0.027 per share, with a mid-point of AU$0.025 per share, on a control basis**.

8. EQ - key information

8.1 Background

8.1.1 EQ is a private Australian sustainable and renewable pine chemical company that was incorporated on 2 February 2017 and has developed a new natural extractive process to treat pine logs ("the Extraction Process") producing high quality, clean gum rosin and terpenes. The Extraction Process will be utilised to produce clean gum rosin and terpenes which are used in a multitude of consumer products, including perfumes, cosmetics, food additives, adhesives, disinfectants, synthetic rubbers and print inks.

8.1.2 The Extraction Process is a patented pine chemicals extraction technique producing pure products. EQ lodged global provisional patent applications in June 2020. EQ has identified the following competitive advantages:

- produce organically extracted products which eliminate harmful waste streams and chemical contaminants;
- high efficiency extraction process compared to existing operators;
- know-how gained from experience that can be applied to improve yields;
- low cost production;
- feedstock supply secured that ensures a consistent supply of resinous logs;
- ability to produce a number of products to meet changing market conditions; and
- the quality of products produced will be at a premium to quoted market prices.

8.1.3 In 2019, EQ commissioned a pilot plant with 4,000 tonne through-put capability at the Apple Tree Creek site in Isis Central, Queensland, Australia. The pilot plant was decommissioned and dismantled in March 2020 to make way for the construction of a commercial plant at the same site. Currently, EQ is constructing an 8,000 tonne per annum commercial scale pine chemical plant which is expected to be commissioned in the December 2020 quarter, with full operating capacity expected to be achieved in April 2021. EQ has recently secured funds via an equity capital raising to fund the construction of its commercial scale plant.

8.1.4 EQ's Apple Tree Creek site has adequate and approved transport infrastructure from plantations and to port for the initial plant and brownfield expansion opportunities. EQ has also identified expansion opportunities at greenfield sites both domestically and internationally. EQ has secured a supply agreement of pine logs from an existing sustainable pine plantation to meet its production requirements and provides EQ with full control of the logs from harvest to production.

8.1.5 EQ will sell its products directly to global customers but also via traders/agents who specialise in trading pine chemicals. EQ has secured an offtake order from a blue chip natural chemicals company based in Japan. EQ has also secured an agreement for its waste products of wood chip and shavings.

8.2 Directors

EQ's Board of Directors and other key executives at the date of this report are presented in the table below.

Table 14

Essential Queensland Pty Ltd Board of Directors
Mr Kenneth Richards (Chairman)
Mr Ramon Mountfort (Managing Director, Executive Director)
Mr Grant Yeatman (Executive Director)
Mr Terry Gray (Non-Executive Director)

Source: EQ

8.3 Share capital

8.3.1 As at the date of this report, EQ had on issue 30,826,001 ordinary shares. The top five shareholders of EQ and their associates are presented in the table below and they held approximately 77% of the issued ordinary capital of EQ.

Table 15

Essential Queensland Pty Ltd Shareholder name	Number of shares held	Percentage interest
Ramon Mountfort & associated entities	17,900,000	58.07%
Gary Yeatman & associated entities	1,762,500	5.72%
Gregory Lloyd Samson and Rosemarie Anne Samson	1,625,000	5.27%
Kenneth Richards & associated entities	1,326,000	4.30%
MRPG Investments (Aus) Pty Ltd	1,175,000	3.81%
	23,788,500	77.17%

Source: EQ

8.3.2 EQ also has 1,044,117 options and 1 million performance rights on issue that are convertible into ordinary shares of EQ. The key terms of these securities are as follow:

- 294,117 options held by associated entities of Kenneth Richards which have an exercise price of AU$1.00 per option and expire on 31 October 2021;
- 750,000 options held by associated entities of Kenneth Richards which have an exercise price of AU$0.85 per option and expire on 1 March 2025; and
- 1 million performance rights held by certain directors of EQ which expire on 1 July 2023 and have certain corporate strategy milestones which need to be met before the rights can vest.

As the expiry date of the options are over 12 months away, we see no reason why the option holders would exercise the options at this point in time. Accordingly, we have not treated these options on an as converted basis in the balance of this report.

8.4 Statements of financial position

EQ's statements of financial position as at 30 June 2018, 30 June 2019 and 30 June 2020 are presented in the table below.

Table 16

Essential Queensland Pty Ltd Statement of Financial Position	Audited 30-Jun-18 AU$	Audited 30-Jun-19 AU$	Audited 30-Jun-20 AU$
Current Assets			
Cash and cash equivalents	30,108	21,017	1,390,260
Receivables	258,801	733,508	657,124
Inventories	-	38,785	57,617
Other current assets	28,730	8,598	8,466
	317,639	801,908	2,113,467
Non-Current Assets			
Plant and equipment	1,586,856	2,288,280	2,498,086
Other non-current assets	124,642	117,328	117,069
	1,711,498	2,405,608	2,615,155
Total Assets	2,029,137	3,207,516	4,728,622
Current Liabilities			
Trade and other payables	17,752	149,180	116,635
Leases	46,153	251,969	176,051
Borrowing	255,744	15,691	233,282
Provisions	6,627	27,275	37,843
	326,276	444,115	563,811
Non-Current Liabilities			
Leases	1,286,113	1,650,191	1,473,989
	1,286,113	1,650,191	1,473,989
Total Liabilities	1,612,389	2,094,306	2,037,800
Net Assets	416,748	1,113,210	2,690,822
Equity			
Contributed equity	643,220	2,487,851	4,903,322
Reserves	-	-	67,610
Accumulated losses	(226,472)	(1,374,641)	(2,280,110)
Total Equity	416,748	1,113,210	2,690,822

Source: EQ's audited financial statements for the financial years ended 30 June 2018, 2019 and 2020

8.5 Operating performance

EQ's statements of comprehensive income for the financial years ended FY18, FY19 and FY20 are presented in the table below.

Table 17

Essential Queensland Pty Ltd Statement of Profit or Loss And Other Comprehensive Income	Audited FY18 AU$	Audited FY19 AU$	Audited FY20 AU$
Revenue	-	52,330	17,741
Interest income	89	2,209	1,964
Government COVID-19 assistance	-	-	62,207
Research & Development credits	220,199	712,249	637,216
Other income	13,000	14,882	15,530
Operating expenses	(137,639)	(336,507)	(301,111)
Employee & Consultant expenses	(134,668)	(1,247,561)	(835,390)
Administrative expenses	(69,605)	(45,886)	(143,579)
Depreciation	(53,072)	(172,017)	(166,722)
Loss on disposal of assets	-	(2,849)	(21,146)
Finance expenses	(63,823)	(124,401)	(119,793)
Foreign currency loss	(953)	(618)	(52,386)
Loss before income tax	(226,472)	(1,148,169)	(905,469)
Income tax benefit	-	-	-
Loss after income tax	(226,472)	(1,148,169)	(905,469)
Other comprehensive income	-	-	-
Total comprehensive loss for the year	(226,472)	(1,148,169)	(905,469)

Source: EQ's audited financial statements for the financial years ended 30 June 2018, 2019 and 2020

8.6 Cash flow statements

EQ's statements of cash flows for FY18, FY19 and FY20 are presented in the table below.

Table 18

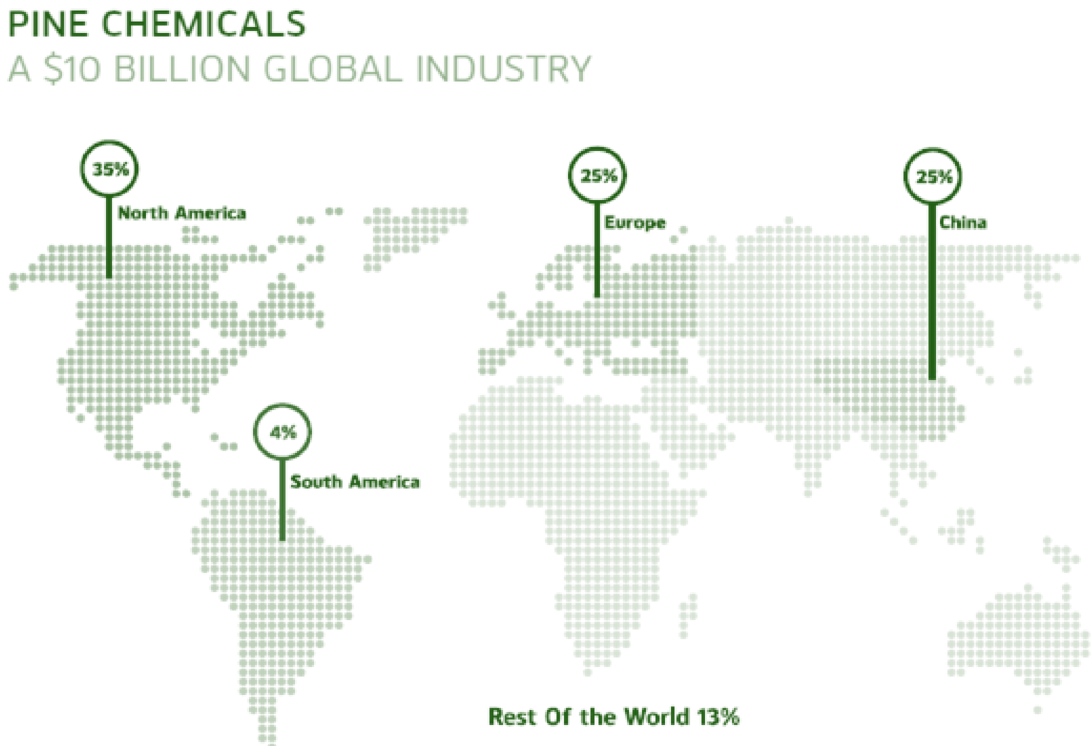
Essential Queensland Pty Ltd Statement of Cash Flows	Audited FY18 AU$	Audited FY19 AU$	Unaudited FY20 AU$
Cash flows from operating activities			
Receipts from customers	-	32,909	28,837
Other income	13,000	49,724	96,869
Payments to suppliers and employees	(366,818)	(1,067,587)	(1,198,840)
Receipt of research & development credits	-	220,199	712,249
Interest received	89	2,209	1,964
Interest paid	(63,740)	(122,267)	(117,265)
Net cash flows used in operating activities	(417,469)	(884,813)	(476,186)
Cash flows from investing activities			
Payments for plant and equipment	(288,228)	(53,379)	(452,757)
Proceeds from disposal of plant and equipment	-	-	54,545
Payments of security deposits	(136,666)	-	-
Net cash flows from investing activities	(424,894)	(53,379)	(398,212)
Cash flows from financing activities			
Proceeds from the issue of shares	643,220	793,240	2,340,151
Payment of principal portion of lease costs	(19,434)	(231,919)	(261,541)
Proceeds from loan	248,685	368,398	217,417
Net cash flows from financing activities	872,471	929,719	2,296,027
Net increase/(decrease) in cash and cash equivalent	30,108	(8,473)	1,421,629
Net foreign exchange difference	-	(618)	(52,386)
Cash and cash equivalent at beginning of year	-	30,108	21,017
Cash and cash equivalent at end of year	30,108	21,017	1,390,260

Source: EQ's audited financial statements for the financial years ended 30 June 2018, 2019 and 2020

8.7 Overview of the Target Market – Pine Chemical Market

8.7.1 'Pine Chemicals' encompasses the natural products and their derivatives that are present in pine trees including natural woods/rosins, terpenes, fatty acids and pitch. Pine chemical products are used in a multitude of consumer products such as paints, inks, adhesives, perfumes, flavours in soft drinks and food, fragrances in soaps and household cleaners, disinfectants, food additives, adhesives, vitamins and automobile tyres.

8.7.2 The global market for pine chemicals was estimated to be approximately US$10 billion in annual revenues in 2018 and growing at an annual rate of approximately 1% above world growth rates. An overview of the location of the main producers of pine chemicals are presented in the image below.



Source: EQ's Information Memorandum

8.7.3 The three processes commonly used to extract rosin and terpenes from pine trees are:

- Crude tail oil (CTO), a by-product of the pulp-making process, is fractionated to produce rosin and terpenes. CTO is renewable, however, it is an environmentally unfriendly process as it creates waste streams with harmful impacts;

- Crude wood or exudates collected from incisions made in the tree trunk and is then distilled into terpenes and rosin. This process is seasonal and labour intensive, and is the primary production process used in China and the Rest of the World (ROW). It is estimated that this process makes up approximately 25% to 30% of global supply; and

- Pine wood (stumps) is solvent-extracted using petroleum based solvents such as Hexane and then distilled to separate terpenes and rosin. Wood and gum rosin products have only trace mineral content making them suitable for a much broader range of value-added products and, as such, command a premium in the market place.

9. Valuation of EQ

9.1 Value definition

PKF Corporate's valuation of the securities of EQ to be acquired by Leaf is on the basis of 'fair market value' as defined in paragraph 7.1 of this report.

9.2 Valuation methodologies

In selecting appropriate valuation methodologies, we considered the applicability of the generally accepted valuation methodologies as set out in paragraph 7.2 of this report.

9.3 Share price history

9.3.1 EQ is an unlisted private company and, as such, there is no active market in its shares. However, as EQ has completed capital raisings and converted debt to equity there are past share transactions in the issued capital of EQ and, as such, we consider that the share price history is an appropriate methodology to consider in assessing the value of a share in EQ.

9.3.2 We have set out the details of the past transactions in EQ shares in the table below.

Table 19

Essential Queensland Pty Ltd Transaction summary Commitment/transaction date	Details	Number of Shares	Consideration Amount AU$	Implied Price Per Share AU$
FY18	Capital raising	17,900,000	16,601	0.001
FY18	Capital raising	941,539	376,616	0.400
FY19	Conversion of debt	1,000,014	250,003	0.250
FY19	Conversion of debt	255,566	63,891	0.250
FY19	Capital raising	369,420	92,355	0.250
FY19	Conversion of debt	1,343,750	537,500	0.400
FY19	Capital raising	1,752,211	700,884	0.400
FY19	Share-based payments	1,125,000	450,000	0.400
November-2019	Capital raising	1,250,000	500,000	0.400
FY20	Share-based payments	312,500	125,000	0.400
March-2020	Capital raising	1,533,562	1,012,152	0.660
June-2020	Capital raising	3,042,439	2,008,000	0.660

Source: EQ's audited financial statements, PKF Corporate analysis

9.3.3 The shares issued under the most recent capital raisings were completed at a share price of AU$0.660 per EQ share and, as such, we have formed the opinion that the EQ shares have a market value of AU$0.660 per share.

9.3.4 As numerous shareholders participated in the recent capital raisings, this resulted in participating shareholders holding a range of shareholding interests and, as such, we consider that these share transactions in EQ reflect minority trades. As Leaf may acquire all of the issued capital of EQ under the Proposed Transaction, we have considered the application of a control premium which represents the difference between the price that would have to be paid for a share to which a controlling interest attaches and the price at which a share which does not carry with it control of EQ could be acquired.

9.3.5 In assessing the control premium to be applied to the share price of EQ, we have again relied on the relevant matrix from the RSM Control Premium Study – 2017 as set out in table 11 of this report. We have applied a control premium in a range of 19.5% to 27.0% to the minority share price of one EQ share valued at AU$0.660 per share. We have summarised the results of this calculation in the table below.

Table 20

Essential Queensland Pty Ltd Share price methodology	Low	High
Value per EQ share (minority)	AU$0.660	AU$0.660
Control premium	19.50%	27.00%
Valuer per EQ share (control)	**AU$0.789**	**AU$0.838**

Source: PKF Corporate analysis

9.3.6 Having regard to the above, we have concluded that the control value of an EQ share is in a range of **AU$0.789 to AU$0.838 per share** as assessed under the share price valuation methodology.

9.4 Capitalisation of future maintainable earnings

9.4.1 EQ's historical operations have been limited to a pilot plant and EQ has incurred net losses from these operations (refer to Section 8.5 of this report). Accordingly, we consider that the capitalisation of maintainable earnings is not an applicable methodology to use to value EQ at this point in time.

9.5 Net present value of future cash flows

9.5.1 EQ has generated positive cash flows because of its ability to raise funds (refer to Section 8.6 of this report). EQ is an early stage business that, following its pilot plant operation, is now commencing the construction of a commercial scale plant and, as such, it has not yet generated any positive cash flows from its operating activities.

9.5.2 We have been provided with financial forecasts of EQ prepared by its management for the financial years ending 30 June 2021 and 2022. RG 111 states that an expert should not include prospective financial information (including forecasts and projections) or any other statements or assumptions about future matters (together, 'forward-looking information') in its report unless there are reasonable grounds for the forward-looking information.

9.5.3 Having regard to the prospective financial information of EQ, there is significant uncertainty and contingencies as to the forecast results and, as such, we have concluded that the net present value of the future cash flows methodology cannot be used as a primary valuation methodology to value EQ. However, we have considered this valuation methodology and the use of the financial forecasts of EQ as a cross check to the share price valuation methodology (refer to Section 9.3 of this report).

9.5.4 We have engaged Acuity Technology Management Pty Ltd[5] ("Acuity") to assist us with a review and assessment of the financial forecasts of EQ, in particular the key assumptions underpinning the forecasts. In performing this review and assessment of the financial forecasts of EQ, several assumptions have been made by EQ which we have relied upon.

[5] Acuity is skilled in the development of business plans and the technical, commercial and financial analyses of engineering and science-based projects. Acuity's Managing Director, Dr David Randerson has experience with valuing pharmaceuticals, stem cells, medical devices, diagnostics, agriculture, biochemical and cell culture technologies and environmental products.

We provide the following comments with regard to our review and assessment of the financial forecasts of EQ:

- the financial forecasts are only for a two year period which we have extrapolated over an additional three year period to produce longer forecasts over a five year period. Our extrapolation relies on the financial forecasts provided and assumes no growth in cash flows in the third, fourth and fifth period;

- the financial forecasts assume that the commissioning of the commercial plant will be completed during the December 2020 quarter following which production will commence. From July 2021, the financial forecasts assume the plant will run at its designed capacity; and

- the revenue assumptions which underpin the financial forecasts include assumptions on the selling price of rosins and terpenes as well as the processing yields from EQ's operations. The selling price of the products are based on recent global pricing and the price demanded for such products vary based on their quality. The assumptions regarding processing yields are based on small scale studies and, as such, the actual yields will depend on the timber quality, optimal chipping and the extraction process of EQ.

9.5.5 In Section 9.3 of this report, we assessed the value of an EQ share to be in the range of AU$0.789 to AU$0.838. As EQ has 30,826,001 ordinary shares on issue, this produces a control value of EQ in a range of say AU$24.322 million to AU$25.832 million. We are of the opinion that the value of EQ cannot be lower than that implied by the share price methodology as it is based on recent transactions in the shares of EQ. Accordingly, we have determined the discount rate range that would be implied based on the financial forecasts of EQ and after extrapolation for a five year period in order to produce the value of EQ assessed under the share price methodology. Based on a range of sensitivity calculations, the resultant implied discount rate is in a range of say 25% to 35%.

9.5.6 In considering the reasonableness of the discount rate range, we have considered the specific factors associated with EQ and the financial forecasts provided, in particular:

- EQ has filed an Australian provisional patent with respect to its extraction process and, as such, overseas competitors may replicate the process once it becomes known publicly;

- The possibility for a delay in commissioning the commercial scale plant and subsequently a delay in commencing production and achieving full capacity throughput;

- Uncertainty regarding the achievement of the expected processing yield and product quality and the consequential impact on selling prices and margins;

- There is no assurance that all produce produced by EQ will be sold; and

- Uncertainty regarding the requirement of further capital to fund any upgrades or maintenance costs and the consequential impact such as downtime may cause on throughput.

In light of the above considerations and the early stage nature of the EQ business, we are of the opinion that the implied discount rate range of 25% to 35% is not unreasonable.

9.5.7 Having regard to the above comments, we are of the opinion that the net present value of the future cash flows methodology provides a reasonable cross check to the share price methodology which we have adopted as our primary valuation methodology.

9.6 Asset based methods

9.6.1 This methodology is based on the realisable value of a company's identifiable net assets. Asset based valuation methodologies include:

(a) Net assets

The net assets of EQ as at 30 June 2020 as per the audited statement of financial position were approximately AU$2.691 million (refer to Section 8.4 of this report).

EQ's major assets are cash assets comprising cash at bank (approximately AU$1.390 million) and plant and equipment (approximately AU$1.394 million). EQ also has other receivables including a security deposit (approximately AU$117,000) and a research and development refund (approximately AU$637,000) as at 30 June 2020.

Since 30 June 2020, EQ has received committed cash funds from its June 2020 capital raising as well as the research and development refund. EQ has also advanced cash funds to Leaf and repaid a loan. Accordingly, we have adjusted the net assets of EQ and reflected our adjustments in the table below and in the corresponding notes.

Table 21

Essential Queensland Pty Ltd Net asset approach	notes	AU$
Reported net assets as at 30 June 2020		2,690,822
Cash raised	1	1,180,000
Cost of capital raise	2	(70,800)
Funds advanced	3	-
Research & Development refund received	4	-
Research & Development loan repayment	4	-
Adjusted net assets		3,800,022

Source: EQ, PKF Corporate analysis

Note 1: During June 2020, EQ commenced a capital raising. AU$1.180 million of the capital raised was received post 30 June 2020. The lead manager of the capital raise was entitled to a further fee of AU$70,800 for these funds raised (6% x AU$1.180 million). As the additional amount of cash is not reflected as part of the nets assets as at 30 June 2020, we have adjusted the net assets of EQ accordingly.

Note 2: As a condition of the Agreement, EQ advanced cash funds to Leaf under the Loan during July 2020 for the repayment of existing debt and general working capital. As the additional amount of cash totalling AU$600,000 was advanced after 30 June 2020 it is not reflected as part of the nets assets of EQ as at this date. The loan funds advanced will reduce assets (cash at bank) and also increase assets (loan receivable) with the overall net impact on the net assets of EQ being nil. Accordingly, we have not adjusted the net assets of EQ given the nil net impact and we have assumed no material change to EQ's other assets or its liabilities as a result of the Loan.

Note 3: During August 2020, EQ received the research and development refund (approximately AU$637,000) and subsequently repaid the research and development loan held with Innovation Structured Finance Co LLC (approximately AU$217,000). These transactions do not impact on the net assets of EQ as the research and development refund receivable and loan payable are recorded on the balance sheet as at 30 June 2020.

With the exception of the above, we have assumed that since 30 June 2020 there was no other material cash burn.

Based on the net assets valuation methodology, the value of EQ is say AU$3.800 million. In our opinion, the provision of a single value does not appropriately reflect the uncertainty inherent in any valuation. However, given the majority of the adjusted net asset backing value of EQ relates to cash resources and receivables, we have not used a range around the value of AU$3.800 million to develop a fair value range. As EQ has 30,826,001 ordinary shares on issue, the EQ shares have a net asset backing of **AU$0.123 per share**.

(b) Orderly realisation of assets

Given EQ's level of cash assets following completion of recent capital raisings to commission the construction of a commercial plant (refer to Section 9.1 of this report) and advance its business strategy as a producer of pine chemicals, we do not consider that an orderly realisation of the assets of EQ is an appropriate valuation methodology to use in assessing the value of the EQ shares.

(c) Liquidation of assets

We consider that this methodology is an inappropriate valuation methodology to use as EQ has existing cash resources, support from its shareholders and an ability to raise capital as demonstrated in the recent capital raisings.

9.7 Comparable market transactions

9.7.1 We are not aware of any specific rules of thumb to be applied to valuing EQ and, as such, we are unable to apply this valuation methodology.

9.8 Alternate acquirer

9.8.1 We are not aware of any alternative proposals to acquire the assets and/or issued capital of EQ and we can see no reason as to why an offer would be initiated at this time.

9.9 Conclusion

9.9.1 The applicable valuation methodologies that we have considered are summarised in the table below.

Table 22

Essential Queensland Pty Ltd **Valuation methodology**	section	**Low** **AU $**	**High** **AU $**
Share price history	9.3	0.789	0.838
Net asset approach	9.6.1 (a)	0.123	0.123

9.9.2 As can be seen from the table above, there is a clear disconnect between the valuation of an EQ ordinary share derived from the share price history valuation methodology and the net asset based approach. The results of the share price history valuation methodology is based on recent transactions in the shares of EQ, which resulted in the emergence of new shareholders who were prepared to acquire EQ shares based on the opportunity to execute its business strategy as a producer of pine chemicals. Accordingly, this valuation methodology is based on current market evidence whereas the premise of the net asset based approach is that EQ is worth the book value of its net assets at a point in time and, as such, does not attribute any value to any intangible assets of EQ nor the opportunity that EQ presents as a potential producer of pine chemicals.

9.9.3 Having regard to the above, we have elected to prefer the share price methodology as it reflects the current market value of EQ shares. We have therefore concluded the fair market value of an EQ share lies in a range of **AU$0.789 to AU$0.838 per share on a control basis**.

10. Valuation of Leaf after the Proposed Transaction

10.1 The value of Leaf after the Proposed Transaction will comprise of its value before the Proposed Transaction together with the value of EQ. In Section 7 of this report, we assessed the value of a Leaf share before the Proposed Transaction to be in a range of AU$0.023 to AU$0.027. In Section 9 of this report, we assessed the value of an EQ share to be in a range of AU$0.789 to AU$0.838.

10.2 To estimate the minority value of a Leaf share after the Proposed Transaction, we have eliminated the premium for control. In Section 7.3 of this report, we selected a control premium in a range of 19.5% to 27.0% and the reciprocal minority discount is in a range of 21.26% to 16.32%. We have set out in the table below our assessment of the value of Leaf after the Proposed Transaction, on a minority basis.

Table 23

Leaf Resources Limited **Valuation after the Proposed Transaction**	section	formula	**Low**	**High**
Value of a Leaf share before the Proposed Transaction (control basis)	7.9.1	a	AU$0.023	AU$0.027
Total ordinary shares on issue before the Proposed Transaction	2.3	b	354,099,144	354,099,144
Value of Leaf before the Proposed Transaction (control basis)		c = a x b	AU$8,144,280	AU$9,560,677
Value of an EQ share (control basis)	9.9	d	AU$0.789	AU$0.838
Total ordinary shares on issue	8.3	e	30,826,001	30,826,001
Value of EQ (control basis)		f = d x e	AU$24,321,715	AU$25,832,189
Minimum capital raised under the Offer	2.3	g	AU$2,500,000	AU$2,500,000
Capital raising costs (6% of the minimum capital raised under the Offer)		h	AU$(150,000)	AU$(150,000)
Conversion of debt to equity	2.3	i	AU$235,088	AU$235,088
Adjustments to the value of Leaf after the Proposed Transaction		j = g + h = i	AU$2,585,088	AU$2,585,088
Adjusted value of Leaf after the Proposed Transaction (control basis)		k = c + f + j	AU$35,051,083	AU$37,977,954
Control premium elimination to obtain minority value		l	21.26%	16.32%
Value of Leaf after the Proposed Transaction (minority basis)		m = k x (1 - l)	AU$27,599,278	AU$31,780,715
Total ordinary shares on issue in Leaf after the Proposed Transaction	2.3	n	1,464,996,705	1,464,996,705
Value of a Leaf share after the Proposed Transaction (minority basis)		p = m / n	AU$0.019	AU$0.022

10.3 In our opinion, after completion of the Proposed Transaction the value of a Leaf ordinary share will be in a range of say **AU$0.019 to AU$0.022 per share, with a mid-point of AU$0.0205 per share, on a minority basis**.

11. Assessment as to Fairness

11.1 The Proposed Transaction is 'fair' if the value of the minority shares held by the Non-Associated Shareholders' in Leaf after the Proposed Transaction is equal to or greater than the control value of the shares in Leaf before the Proposed Transaction.

11.2 In Section 7 of this report, we assessed the value of a Leaf ordinary share on a control basis before the Proposed Transaction to be in a range of AU$0.023 to AU$0.027 per share, with a mid-point of AU$0.025 per share.

11.3 In Section 10 of this report, we assessed the value of a Leaf ordinary share on a minority basis after the Proposed Transaction to be in a range of AU$0.019 to AU$0.022 per share, with a mid-point of AU$0.0205 per share.

11.4 As the minority value range mid-point (AU$0.0205 per share) of a Leaf ordinary share after the Proposed Transaction is less than the control value range mid-point (AU$0.025 per share) of a Leaf share before the Proposed Transaction, we have concluded that the Proposed Transaction is **not fair**.

12. Assessment as to Reasonableness

12.1 Prior to deciding whether to approve or reject the Proposed Transaction, the shareholders of Leaf should also consider the following significant factors:

- In Section 11 of this report, we assessed the Proposed Transaction as being not fair.

- If Shareholders approve the Proposed Transaction, the Mountfort Interests will control up to 40.32% of Leaf's voting power and the Vendor Shareholders of EQ will collectively control up to 72.23% of Leaf's voting power. As a result, the combined shareholding of the Non-Associated Shareholders will be diluted from 85.38% to 17.54% and they will have reduced ability to influence the operating, financing and strategic decision of Leaf. Further, as the Mountfort Interests' voting power will increase beyond 25% it may have the capacity to block the passing of a special resolution.

- The issue price of the Leaf ordinary shares subject to the Offer as part of the Proposed Transaction (AU$0.020 per LER share) is at a 5% premium to the closing share price of a Leaf share prior to the ASX announcement of the Proposed Transaction on 16 July 2020 following a trading halt that took effect on 14 July 2020. Although approval of the Proposed Transaction will result in existing Leaf shareholders losing control, they may be provided with the opportunity to subscribe for additional shares under the Offer.

- If Shareholders approve the Proposed Transaction, Gary Yeatman, Terence Gray and their associated entities will be issued 33 million Rights as part of the Consideration Payable. If the performance hurdles are met under the Rights being issued, the stake of the Non-Associated Shareholders will be diluted further. However, the performance hurdles under the Rights being issued pertain to the Company achieving profitable earnings at an EBITDA level and, as such, it would be expected that the milestones attaching to the Rights would be highly accretive to Leaf shareholders and would provide the Non-Associated Shareholders with a stake in a profitable business.

- If Shareholders approve the Proposed Transaction, Kenneth Richards and associated entities will be issued approximately 34.455 million unlisted options in Leaf. We have set out our assessed indicative value of the Consideration Options in Appendix C of this report. Accordingly, the indicative value of the Consideration Options that Kenneth Richards and associated entities may receive the benefit of is approximately AU$193,000.

- The Proposed Transaction is also likely to result in Leaf having a higher market capitalisation which may lead to greater market awareness and broker coverage and, as such, improve the Company's ability to raise funds in the future and attract strategic investors.

- The acquisition of EQ is speculative as EQ is effectively a start-up business and, as such, the shareholders of Leaf will be exposed to the risks associated with an investment in a start-up business that is pending construction of a commercial scale plant. Conversely, shareholders will be exposed to an investment that is targeting commercial operations and positive operating cash flows in the 2021 calendar year compared to the current stage of maturity of Leaf which is yet to establish a clear pathway to commercial operations. The ability to generate operating cashflows will allow Leaf to continue to develop Glycell™.

- Approval of the Proposed Transaction will allow Directors' unpaid expenses to be repaid through the issue of shares and without using cash from working capital or external funding.

- The acquisition of EQ will provide Leaf with key personnel who have the relevant market expertise which will provide Leaf's proprietary asset, Glycell™, a commercial avenue as part of its application into EQ's extraction process. The extraction process employed by EQ results in a cellulosic 'waste' product that is a potential feedstock to Leaf's Glycell™ process further extending the produce opportunities. Although we have not considered any speculative upside in our valuation of Leaf post completion of the Proposed Transaction, we recognise that investors may place speculative value on EQ as a stand-alone business and/or added value towards Leaf upon successful integration by achieving synergy benefits. This may be attractive to investors who have an appetite for speculative gains and may result in greater coverage by analysts, resulting in greater liquidity of the market in Leaf's shares.

- The Directors of Leaf have sought external advice and performed due diligence regarding the Proposed Transaction, in particular its strategic fit with its focus on renewal and agriculture sectors, which they have subsequently approved.

- If shareholders do not approve the Proposed Transaction, the Loan provided by EQ will become immediately payable by Leaf and will require Leaf to seek immediate funding to repay the Loan which may be on substantially unfavourable terms or be highly dilutive to shareholders and may require extensive management focus and expense to secure. If Leaf is unable to repay the Loan, it risks default and the adverse impacts as the Loan is secured against Leaf assets.

- The Company currently has minimal cash resources and a deficiency of net assets over liabilities. Approval of the Proposed Transaction and the successful completion of the capital raise under the Offer will allow Leaf to strengthen its cash resources to be utilised for working capital and improve the mill optimisation of EQ as well as provide the opportunity to bring on strategic institutional or sophisticated investors to the share register of the Company.

- If shareholders do not approve the Proposed Transaction, the Company would have to pursue alternative funding avenues and identify new complementary acquisition targets which may require extensive management focus and expense to secure in order to provide shareholders with a new value proposition. It is possible that Leaf's shares may remain suspended from trading until such time.

- The manner in which the change to the nature and scale of Leaf's activities is being achieved may not be consistent with the investment, financial, taxation or other objectives of all shareholders.

12.2 Based on the above, we consider that the advantages of the Proposed Transaction outweigh the disadvantages of the Proposed Transaction, and for this reason, we consider that the Proposed Transaction is **reasonable** for the Non-Associated Shareholders of Leaf.

13. Assessment as to Fairness and Reasonableness

After considering the above matters, we have concluded that the Proposed Transaction is **not fair but is reasonable to the Non-Associated Shareholders**.

14. Assessment as to Fairness and Reasonableness – The Richards Resolutions

14.1 The Richards Resolutions are 'fair' if the value of the EQ securities that Leaf may acquire pursuant to these resolutions are equal to or less than the value of the Leaf securities to be issued as part of the consideration being offered.

14.2 The EQ securities that Leaf may acquire from the Richards Entities include 1,326,000 EQ ordinary shares, 294,117 EQ options and 750,000 EQ options. We have assessed the value of these EQ securities that Leaf may acquire as set out in the table below.

Table 24

Leaf Resources Limited Valuation of the EQ securities held by the Richards Entities	section	formula	Low	High
Value of an EQ share (minority basis)	9.3	a	AU$0.660	AU$0.660
EQ shares held by the Richards Entities	8.3	b	1,326,000	1,326,000
Value of the EQ shares that may be acquired (minority basis)		c = a x b	AU$875,160	AU$875,160
Value of an EQ option	Note 1	d	AU$0.055	AU$0.055
EQ options held by the Richards Entities	8.3	e	294,117	294,117
Value of the EQ options that may be acquired		f = d x e	AU$16,176	AU$16,176
Value of an EQ option	Note 1	g	AU$0.225	AU$0.225
EQ options held by the Richards Entities	8.3	h	750,000	750,000
Value of the EQ options that may be acquired		i = g x h	AU$168,750	AU$168,750
Total value of the EQ securities that Leaf may acquire (minority basis)		j = c + f + i	AU$1,060,086	AU$1,060,086

Note 1: in assessing the value of the EQ options, we have adopted the inputs set out in Appendix C of this report with the exception of the share price of EQ (AU$0.660) and the respective exercise prices and number of EQ options per class (refer to Section 8.3 of this report).

14.3 The total consideration payable by Leaf to the Richards Entities comprises of 43,758,000 Leaf ordinary shares, 9,705,861 Leaf Class A options and 24,750,000 Leaf Class B options. We have assessed the value of these Leaf securities that Leaf may issue as consideration as set out in the table below.

Table 25

Leaf Resources Limited Valuation of the Leaf securities payable to the Richards Entities	section	formula	Low	High
Value of a Leaf share after the Proposed Transaction (minority basis)	10.3	a	AU$0.019	AU$0.022
Leaf shares that may be issued as consideration	2.3	b	43,758,000	43,758,000
Value of Leaf shares that may be issued as consideration (minority basis)		c = a x b	AU$831,402	AU$962,676
Value of a Leaf Class A option	App C	d	AU$0.002	AU$0.002
Leaf Class A options that may be issued as consideration	2.3	e	9,705,861	9,705,861
Value of Leaf Class A options that may be issued as consideration		f = d x e	AU$19,412	AU$19,412
Value of a Leaf Class B option	App C	g	AU$0.007	AU$0.007
Leaf Class B options that may be issued as consideration	2.3	h	24,750,000	24,750,000
Value of Leaf Class B options that may be issued as consideration		i = g x h	AU$173,250	AU$173,250
Total value of Leaf securities being offered as consideration (minority basis)		j = c + f + i	AU$1,024,064	AU$1,155,338

14.4 In Section 14.2 of this report, we assessed the value of the EQ securities on a minority basis that Leaf may acquire from the Richards Entities to be AU$1,060,086.

14.5 In Section 14.3 of this report, we assessed the consideration being offered to the Richards Entities in a range of AU$1,024,064 to AU$1,155,338.

14.6 As the value of the EQ securities that Leaf may acquire from the Richards Entities (AU$1,060,086) is within the range of the consideration being offered to the Richards Entities (AU$1,024,064 to AU$1,155,338), we have concluded that the Richards Resolutions are **fair**.

14.7 As the Richards Resolutions are Essential Resolutions and form part of the overall Proposed Transactions, the factors set out in Section 12 of this report are equally applicable to the Richards Resolutions. After considering these factors and our conclusion that the Richards Resolutions are fair, we have concluded that the Richards Resolutions are **fair and reasonable**.

14. Financial Services Guide

This Financial Services Guide provides information to assist retail and wholesale investors in making a decision as to their use of the general financial product advice included in the above report.

12.1 PKF Corporate

PKF Corporate holds Australian Financial Services Licence No. 222050, authorizing it to provide general financial product advice in respect of securities to retail and wholesale investors.

12.2 Financial Services Offered by PKF Corporate

PKF Corporate prepares reports commissioned by a company or other entity ("Entity"). The reports prepared by PKF Corporate are provided by the Entity to its members.

All reports prepared by PKF Corporate include a description of the circumstances of the engagement and of PKF Corporate's independence of the Entity commissioning the report and other parties to the transactions.

PKF Corporate does not accept instructions from retail investors. PKF Corporate provides no financial services directly to retail investors and receives no remuneration from retail investors for financial services. PKF Corporate does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice to retail investors.

12.3 General Financial Product Advice

In the report, PKF Corporate provides general financial product advice. This advice does not take into account the personal objectives, financial situation or needs of individual retail investors.

Investors should consider the appropriateness of a report having regard to their own objectives, financial situation and needs before acting on the advice in a report. Where the advice relates to the acquisition or possible acquisition of a financial product, an investor should also obtain a product disclosure statement relating to the financial product and consider that statement before making any decision about whether to acquire the financial product.

12.4 Independence

At the date of this report, none of PKF Corporate, Mr Paul Lom, Mr Steven Perri nor Mr Stefan Galbo have any interest in the outcome of the Proposed Transaction, nor any relationship with Leaf, EQ and associated entities or any of their directors.

Drafts of this report were provided to and discussed with the management of Leaf and its advisers. Certain changes were made to factual statements in this report as a result of the reviews of the draft reports. There were no alterations to the methodology, valuations or conclusions that have been formed by PKF Corporate.

PKF Corporate and its related entities do not have any shareholding in or other relationship with Leaf that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

PKF Corporate had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this report.

PKF Corporate considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC on 30 March 2011.

12.5 Remuneration

PKF Corporate is entitled to receive a fee of approximately AU$40,000 for the preparation of this report. With the exception of the above, PKF Corporate will not receive any other benefits, whether directly or indirectly, for or in connection with the making of this report.

12.6 Complaints Process

As the holder of an Australian Financial Services Licence, PKF Corporate is required to have suitable compensation arrangements in place. In order to satisfy this requirement PKF Corporate holds a professional indemnity insurance policy that is compliant with the requirements of Section 912B of the Act.

PKF Corporate is also required to have a system for handling complaints from persons to whom PKF Corporate provides financial services. All complaints should be in writing and sent to the Complaints Officer, PKF Corporate at level 12, 440 Collins Street, Melbourne Vic 3000.

PKF Corporate will make every effort to resolve a complaint within 45 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Australian Financial Complaints Authority – GPO Box 3, Melbourne Vic 3000.

Yours faithfully

PKF Melbourne Corporate Pty Ltd

Paul Lom
Director

Steven Perri
Director

Leaf Resources Limited

Sources of Information

The key documents we have relied upon in preparing this report are:

- Leaf's Annual Reports – 30 June 2018, 2019 and 2020;
- EQ's Annual Reports – 30 June 2018, 2019 and 2020;
- EQ's Information Memorandum;
- EQ's forecast financial model;
- Leaf's draft resolution relating to the Proposed Transaction for the purpose of the Notice of General Meeting and Explanatory Memorandum;
- Research data from publicly accessible web sites in particular Leaf's ASX announcements; and
- Discussions with the management of Leaf and EQ.

Leaf Resources Limited

Declarations, Qualifications and Consents

1. Declarations

This report has been prepared at the request of the Directors of Leaf Resources Limited pursuant to Section 606 of the Corporations Act 2001 and Chapter 10 of the ASX listing rules to accompany the notice of meeting of shareholders to approve the Proposed Transaction. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposed Transaction is fair and reasonable.

This report has also been prepared in accordance with the Accounting Professional and Ethical Standards Board professional standard APES 225 – Valuation Services.

The procedures that we performed and the enquiries that we made in the course of the preparation of this report do not include verification work nor constitute an audit in accordance with Australian Auditing Standards.

2. Qualifications

Mr Paul Lom, director of PKF Corporate, and Mr Stefan Galbo, prepared this report. They have been responsible for the preparation of expert reports and are involved in the provision of advice in respect of valuations, takeovers, capital reconstructions and reporting on all aspects thereof.

Mr Lom is a Fellow of Chartered Accountants Australia and New Zealand (CAANZ) and an Accredited Business Valuation Specialist (CA BV Specialist) with more than 35 years experience in the accounting profession. He was a partner of KPMG and Touche Ross between 1989 and 1996, specialising in audit. He has extensive experience in business acquisitions, business valuations and privatisations in Australia and Europe.

Mr Galbo is a Member of Chartered Accountants Australia and New Zealand (CAANZ) and an Accredited Business Valuation Specialist (CA BV Specialist). He has been responsible for the preparation of valuation reports relating to shares, businesses, options and performance rights and intellectual property for the purpose of acquisitions, divestments, litigation, taxation and capital reconstruction.

Mr Steven Perri, a director of PKF Corporate reviewed this report. Mr Perri is a Member of Chartered Accountants Australia and New Zealand (CAANZ) and an Accredited Business Valuation Specialist (CA BV Specialist).

3. Consent

PKF Corporate consents to the inclusion of this report in the form and context in which it is included in the Explanatory Memorandum.

Valuation of Consideration Options

If shareholders approve the Proposed Transaction, associated entities of Kenneth Richards are entitled to receive options in Leaf in lieu of the cancellation of existing options on issue in EQ (the "Consideration Options"). The terms of the Consideration Options are detailed in the Notice and we have set out below the key terms for valuation purposes.

Class A: 9,705,861 unlisted options with an exercise price of AU$0.030 per Option and expiring on 31 October 2021.

Class B: 24,750,000 unlisted options with an exercise price of AU$0.023 per Option and expiring on 1 March 2025.

In assessing the value of the Consideration Options, we have adopted the Black-Scholes option valuation model and the assumptions and inputs used in its application are set out below.

Share price: AU$0.020 per share based on the offer price under the proposed capital raising (refer to Resolution 11).

Risk-free rate: the risk-free interest rates are based on Treasury Bond yields as at 18 September 2020 and sourced from the Reserve Bank of Australia with a maturity approximating the respective expiry dates of each class being 0.15% (Class A) and 0.36% (Class B).

Volatility: the volatility used in option pricing models is typically calculated with reference to the annualised standard deviation of daily share price returns on the underlying security over a specific period. We source historical volatility information for Australian listed companies from a quarterly research report issued by Rozetta Technology Pty Ltd which calculates volatility over a four-year historical period. We have assessed the volatility of Leaf to be 51%.

Using the above inputs and the application of the Black-Scholes option valuation model, we have set out in the table below our assessment of the indicative value of the Consideration Options which associated entities of Kenneth Richards may receive.

Leaf Resources Limited Consideration Options	Class A Options	Class B Options
Value per option	AU$0.002	AU$0.007
Number of options	9,705,861	24,750,000
Total value per class	AU$19,412	AU$173,250