

17 May 2021

Appendix 4C and Quarterly Activities Report For Period Ending 31 March 2021

Highlights:

- **Very positive results from initial batch production confirming expected extractive yields**
- **No major technical issues during commissioning which will prevent operational targets being met**
- **Full operational run-rate of 8,000tpa expected to be achieved by 30 June 2021**
- **Signed \$2m Facility Agreement**

Leaf Resources Limited (ASX: LER) (“Leaf” or “Company”), positioned to become a leading supplier of sustainable pine chemicals, is pleased to report its quarterly activities report and appendix 4C.

Essential Queensland’s (“EQ”) (100% owned subsidiary of Leaf) Apple Tree Creek plant has successfully produced initial batch production runs of rosin and terpenes. Results have been very positive, confirming expected extractive yields with high quality grade rosin and terpenes.

No major issues were experienced during commissioning which may have prevented operational targets from being met.

The plant has now moved to continuous operation, based on a planned ramp up schedule to meet the Company’s forecast full operational run-rate of 8,000tpa by June 2021. During the planned production ramp up, management is implementing automation of the process control systems which will optimise the production rates and improve staff scheduling.

The Directors of Leaf Resources are pleased to announce that the Company has agreed a \$2,000,000 secured Facility Agreement with Altor Capital. These funds, when combined with the previously announced \$1,300,000 loan secured against R&D rebate receivables and emerging operational cashflows puts Leaf in a strong position and capable of funding a material expansion at the Apple Tree Creek plant.

With the additional debt funding, the Company has committed to the expansion of the front end wood handling and chipping capacity by purchasing the following equipment:

- Vermeer HG6000 Chipper
- Hammermill

These purchases enable front end handling and chipping capacity that could supply chemical production up to 32,000tpa. More importantly, this equipment enhances the Company's ability to accept different wood supply options including oversized log butts and tree stumps, which have little value to existing forestry operations. The larger chipper and hammer mill will also enable optimisation of woodchip size entering the plant which will further improve extractive yields. The Company expects wood stump trials to begin in a few weeks.

In addition, the Company has also committed to a Flaker production line allowing for 20kg flaked and bagged rosin, at a 6,000 tpa production rate. Flaked bagged rosin sells at higher margins than drummed rosin. This will improve profit potential of the planned 8,000 tpa production.

Pine chemical price increases continued through the March quarter, with rosin and terpene prices increasing 12% and 5% respectively. Rosin is trading at USD \$2,900/tonne and terpenes trading at USD \$4,580 per tonne. At 8,000tpa production, Leaf's expected 6,800tpa rosin and 1,200tpa terpene production will only represent circa 0.50% and 0.35% of global production.

Appendix 4C supporting notes

During the period the Company incurred expenditure of \$551,000 in relation to administrative, corporate and staff costs. A total of \$628,000 of operating costs and \$500,000 of property, plant and equipment was expended during the quarter in relation to the Apple Tree Creek site. The Company received \$1,300,000 under a loan agreement secured against R&D rebate receivables. Costs in relation to the transaction with Essential Queensland Pty Ltd totalled \$49,000 for the quarter.

Fees, salaries and superannuation contributions paid to Directors during the quarter amount to \$202,000 as disclosed at item 6.1 of the Appendix 4C.

The following information is provided pursuant to Listing Rule 4.7C.2.

Use of funds	Estimate ¹ (as per prospectus 17 Nov 2020) \$'000	Actual (From re-admission to 31 March 2021) \$'000	Variance Under / (Over) \$'000
Type			
Optimisation of the Apple Tree Creek Plant	\$2,054	\$854	\$1,200 ⁽²⁾
Completion of construction and commencement of commissioning of Apple Tree Creek Plant.	-	\$807	(\$807) ⁽³⁾
Supply security bond	\$300	-	\$300 ⁽⁴⁾
Expenses of the offer	\$423	\$374	\$49 ⁽⁵⁾
Working capital and administration and corporate costs	\$223	\$534	(\$311) ⁽⁶⁾
Total	\$3,000	\$2,569	\$431

¹ The above table was a statement of current intention as at the date of the prospectus. With any budget, intervening events and new circumstances have the potential to affect the manner in which funds are ultimately applied. The Board reserves the right to alter the way funds are applied on this basis.

² Completion of the optimisation work at the Apple Tree Creek plant is expected to be completed during the June 2021 quarter.

³ The completion of the Apple Tree Creek plant experienced delays over the December and January period as a result of closures and COVID-19 restrictions during that period that impacted the ability for contractors and technicians to travel to site and the transportation of goods, these costs were as per previously budgeted expenditure but were delayed until the March 2021 quarter as a result of these timing issues.

⁴ The Company is currently managing the payment terms with the pine log supplier under the existing credit limits. The additional \$300,000 security bond will be applied in future periods as production ramps up.

⁵ Expenses of the offer are in line with the prospectus with the balance of expenses to be paid during the June 2021 quarter.

⁶ The additional costs directly relate to additional corporate costs as a result of the delays experienced in completing construction of the Apple Tree Creek plant which included the impact of Covid-19 on the availability of contractors and transportation delays as detailed in point 3 above.

Authorisation Statement

This update has been authorised to be given to ASX by the Board of Leaf Resources Limited.

--ENDS--

Contacts

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About Leaf Resources

Leaf and EQ technologies are highly complementary and both technologies enable the replacement of petroleum-based chemicals and plastics with the aim of moving markets towards the bio economy. In addition, the extraction process employed by EQ results in a cellulosic 'waste' product that is a potential feedstock to LER's proprietary "Glycell"TM process for producing clean industrial sugars.