

27 July 2021, ASX ANNOUNCEMENT (ASX:LCK)



Quarterly Report - June 2021

Leigh Creek Energy Limited (“LCK” or “the Company”) provides this operations update for the three months to 30 June 2021.

Highlights

- Engineering, Procurement, Construction, Commissioning and Finance (EPCCF) contract awarded to leading South Korean global engineering, procurement and construction contractor, DL E&C Co. Ltd.
- Completion of an institutional placement for AUD 18 million supported by sophisticated and institutional investors.
- The Company remains focussed on progressing the LCEP to provide low-cost nitrogen-based fertiliser for local and export agriculture markets. The LCEP will be the only fully integrated urea production facility in Australia and delivers a pre-tax leveraged Net Present Value (NPV) of AUD 3.4 billion with an Internal Rate of Return (IRR) of 30%.

LCK Managing Director Phil Staveley commented on the June 2021 quarter’s activities:

“Momentum has progressed for the AUD 2.6 Billion LCEP downstream Urea plant, which will be one of the biggest infrastructure projects of its type in Australia and the only fully integrated urea production facility in the country.

“Initial work is underway on upstream (Stage 1) gas production. We have awarded the Engineering, Procurement, Construction, Commissioning and Finance (EPCCF) contract for the downstream (Stage 2) urea manufacturing plant to South Korean-based multinational engineering company DL E&C, a global leader in the construction of similar facilities in 35 countries. We have also secured debt finance from a major South Korean bank for up to 70% (approximately AUD \$1.5 Billion) of the Stage 2 project costs, which significantly de-risks the project.

“This integration of all production onsite is key to our competitive advantage. It allows us to be one of the lowest-cost producers of urea in the world. For the Australian agricultural sector it provides additional sovereign security to a critical product and allows our farmers to avoid supply-side risks associated with commodity prices, exchange rates, shipping and import logistics.

“We remain focused on furthering urea offtake discussions with several prospective customers, finalising the EIR, SEO and field development plans for Stage 1 gas production through our recent \$18 million capital injection which keeps us well capitalised.”

Commercial Urea Production Contract Awarded to Daelim

LCK has awarded the Engineering, Procurement, Construction, Commissioning and Finance (EPCCF) contract to leading global engineering, procurement and construction contractor, DL E&C Co. Ltd – a member of the Daelim group and the eighth largest EPC contractor globally.

ABOUT DL E&C

Incorporated in 1939, DL E&C (former Daelim Industrial Co., Ltd.) is the flagship company of the DL Group, which consists of thirteen affiliates. As a leader in the construction sectors in South Korea, DL E&C provides a wide variety of products and services. DL E&C has successfully completed more than 600 projects of construction, civil engineering, and plant projects in 35 countries worldwide. It has been recognised for its technical leadership and strong competitiveness in the global market.

Extracted Key Statistics of the Daelim Group

DAELIM IN NUMBERS

October 10, 1939

Foundation

6,619

Number of Employees

Major Financial Status | The Highest Profit Achieved Since the Foundation

USD 976 million

Profit Total Asset

USD 8,378 million

Sales

USD 11,613 million

Total Asset

Credit Rating | The Only Korean Construction Company
with International Credit Ratings

Baa2

International / Moody's (issue)

AA-

Domestic /

* K.FRS consolidated basis as of the end of 2019.

* Credit rating: Korea Credit Rating, Korea Company
Rating, NICE Credit Rating

BBB

International / S&P (issue)

Global Projects

35

Countries

600+

Projects

Source : DAELIM 2020 Corporate Report

The contract with DL E&C is for development of the full commercial stage of the LCEP, consisting of a 1mtpa zero carbon urea production facility in South Australia. Key terms of the contract include:

- DL E&C Co. Ltd, will manage the LCEP Bankable Feasibility Study (BFS) and Front End Engineering Design (FEED) stages, ahead of the Final Investment Decision (FID).
- Once FID is achieved, then DL E&C Co. Ltd, will perform the engineering, procurement, construction and commissioning of the urea production facilities.
- Under the turnkey price EPCCF contract, a letter of support for approximately 70% (or approximately \$1.5 billion) of the project price has been received. The majority of this debt will be funded by South Korean banks but with the potential for involvement of other multi-national banks. The finance will be provided subject to usual commercial terms and is stage-gated by a positive FID. The remaining 30% will be funded by a mixture of debt, equity and equity participation in the project.

DL E&C Co. Ltd. has made an immediate start on the BFS and FEED and leads to the expected FID in late 2022.

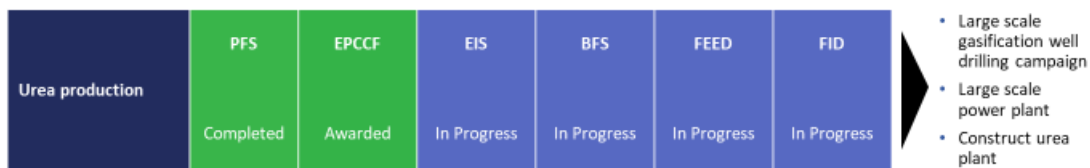
Progress with Commercial Development

The charts below show the Company's progress towards Stage 1 and Stage 2 of the LCEP's commercial development.

Stage 1 Commercial Development



Stage 2 Commercial Development



The objective of the upstream (Stage 1) component of the LCEP is to develop the gasifiers for the urea manufacturing plant (Stage 2) requirements. The scope of this stage includes:

- Acquisition and installation of the power generators (completed subsequent to quarter end)
- Drilling of up to five syngas-producing wells to provide syngas to power the generators
- Acquisition of additional 3D seismic information to guide planning of the gasification field for Stage 2 syngas feedstock requirements

Stage 2 of the LCEP will see the development of:

- Expanded gas field
- Gas collection and clean up plant
- Power upgrade
- Ammonia plant
- 1mtpa urea plant
- Rail and port facilities and associated logistics

Urea Offtake Agreements

LCK is progressing with offtake discussions with several parties. These discussions will be concluded in a structured manner in conjunction with strategic partner discussions.

Recruitment Programme commenced

No company can grow without people. For a company in LCK's position, requiring an ever increasing skills base, growth is a constant. During the June quarter LCK continued its growth, recruiting 5 new employees to support Stage 1 commercial development and the growth of the Company. These are the following key operations appointments:

1. Contracts and Procurement Director
2. Senior Mechanical Engineer
3. Senior Electrical Engineer
4. Environmental Scientist
5. Training and Learning Manager

In addition, LCK is currently recruiting for the following positions:

1. ISO Engineer
2. Project Director
3. Document Control
4. Railway Engineer
5. Mechanical Engineer
6. Civil Engineer
7. Process Engineer
8. Electrical Engineer
9. Office Administrator
10. Safety Manager

These positions and many more will be required as we now start the build up towards FID and then production.

Zero Carbon by 2030

LCK has an established plan and is committed to being carbon neutral by 2030. As well as CO₂ being consumed during the conversion from ammonia to urea phase, programs are underway for:

- Geological sequestration (storing CO₂ in depleted gasifiers)
- Biological sequestration (through offsets by land use and revegetation)
- Use of renewable energy to power operations
- Converting CO₂ into useable products

Institutional Placement

During the quarter the Company raised \$18 million to progress Stage 1 of the LCEP. Funds raised will be used to progress Stage 1 of the LCEP towards production of commercial syngas and power generation in 2022.

Board Composition

Mr Gregory English resigned from the LCK Board during the quarter. Mr English joined the LCK Board in 2015 following the acquisition of the Leigh Creek Energy Project, as a Non-Executive Director. In that time he has provided valuable input and guidance to the Company and has worked to ensure that the best interests of our shareholders were always forefront in the decision making of the Company.

Finance & Corporate

As of 30 June 2021, the Company's total cash balance was \$22.7 million. The rise from the previous quarter's balance (\$7.6 million) is due to the placement completed in June 2021, netted against operating costs.

The accompanying Appendix 5B (Quarterly Cashflow Report) includes a summary of cashflow inflows and outflows for the quarter, including amounts in item 6.1 which were executive and non-executive director fees paid as salaries and wages.

The Board of Leigh Creek Energy Limited authorised this announcement to be given to the ASX.

Further information:

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About the Leigh Creek Energy Project

The Leigh Creek Energy Project (LCEP) is Leigh Creek Energy's (ASX:LCK) flagship project, developing low-cost nitrogen-based fertiliser for local and export agriculture markets. Located in South Australia, 550 kilometres north of Adelaide, the LCEP will initially produce 1Mtpa (with potential to increase to 2Mtpa) of urea using LCK's 1,153PJ 2P gas reserves.

The \$2.6 billion LCEP will be one of the biggest infrastructure projects of its type in Australia, providing long term economic development and employment opportunities for the communities of the Upper Spencer Gulf region, northern Flinders Ranges and South Australia.

The LCEP will be the only fully integrated urea production facility in Australia, with all inputs for low carbon urea production on-site. Average nominal operating cost are forecast to be \$109 per tonne which is within the lowest cost quartile of the global urea production cost curve. Pre-tax leveraged Net Present Value (NPV) is A\$3.4 billion, with an Internal Rate of Return (IRR) of 30%.

LCK has a comprehensive environment, social and governance strategy. It has produced syngas within all approved environmental parameters set by the regulator and will be carbon neutral by 2030.

Resource Compliance Statement

The information in this announcement that relates to the 2P Syngas Reserve was detailed in an announcement lodged with ASX on 27 March 2019 and is available to view at www.lcke.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in that announcement and that all material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed. All estimates are based on the deterministic method for estimation of petroleum resources.

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

LEIGH CREEK ENERGY LIMITED

ABN

31 107 531 822

Quarter ended ("current quarter")

June 2021

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers		
1.2	Payments for		
	(a) exploration & evaluation (if expensed)		
	(b) development		
	(c) production		
	(d) staff costs	(880)	(3,050)
	(e) administration and corporate costs	(1,504)	(2,806)
1.3	Dividends received (see note 3)		
1.4	Interest received	-	3
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Government grants and tax incentives	1	51
1.8	Other – R&D rebates received	-	518
1.9	Net cash from / (used in) operating activities	(2,383)	(5,284)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities		
	(b) tenements		
	(c) property, plant and equipment	(18)	(55)
	(d) exploration & evaluation (if capitalised)	(1,447)	(3,643)
	(e) investments		
	(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities		
	(b) tenements		
	(c) property, plant and equipment		
	(d) investments		
	(e) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(1,465)	(3,698)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	18,952	24,952
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options	212	840
3.4	Transaction costs related to issues of equity securities or convertible debt securities	37	(182)
3.5	Proceeds from borrowings	1,708	1,855
3.6	Repayment of borrowings	(136)	(704)
3.7	Transaction costs related to loans and borrowings	(1,711)	(1,780)
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	19,062	24,981

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	7,599	6,814
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,383)	(5,284)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,465)	(3,698)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	19,062	24,981

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	22,813	22,813

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	21,290	6,077
5.2	Call deposits	1,523	1,522
5.3	Bank overdrafts		
5.4	Other (Term deposits)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	22,813	7,599

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
393

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Explanation:

Executive and Non-Executive Directors fees.

Piper Alderman lawyers were paid for legal services rendered to the Group. Former Non-Executive Director Mr Greg English is a partner at Piper Alderman lawyers.

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities		
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities		

7.5	Unused financing facilities available at quarter end	
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.	

	8. Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	(2,383)
8.2	Capitalised exploration & evaluation (Item 2.1(d))	(1,447)
8.3	Total relevant outgoings (Item 8.1 + Item 8.2)	(3,849)
8.4	Cash and cash equivalents at quarter end (Item 4.6)	22,813
8.5	Unused finance facilities available at quarter end (Item 7.5)	-
8.6	Total available funding (Item 8.4 + Item 8.5)	22,813
8.7	Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	5.93

8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Compliance statement

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

Date: 27 July 2021

Authorised by: By the Board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.