

QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C FOR QUARTER ENDING 30 SEPTEMBER 2021

Highlights:

- ✔ Good progress has been made during the quarter on production process optimisation, customers and stump feedstock processing
- ✔ Work during the quarter sets up Leaf for nameplate capacity production in the December 2021 quarter
- ✔ Company remains adequately capitalised from July placement with \$5.2m at bank on 30 September, with a further \$1.4m anticipated from R&D tax refund in the current quarter
- ✔ First sales order of pine chemicals product delivered to Yasuhara Chemical Co. LTD (“**Yasuhara**”); customer testing reaffirms product quality that is 100% natural
- ✔ Pine stump processing successfully confirms that the higher yielding pine stumps are a suitable feedstock, which significantly increases the availability of wood supply
- ✔ High grade stumps extracted and processed within 1 minute allowing for further upside to project unit economics
- ✔ Front end wood sizing and handling has been optimised to meet initial design capacity of 8,000tpa
- ✔ First production of rosin from the plant was achieved during the quarter
- ✔ Continued strong customer demand for its natural pine chemicals augurs well for when full production commences

Leaf Resources Limited (ASX: LER) (“**Leaf**” or “**Company**”), which has positioned itself to become a leading supplier of sustainable pine chemicals, is pleased to provide a summary of the Company’s activities for the quarter ended 30 September 2021. During the quarter the focus has been on supply, front end handling and wood feedstock sizing and, importantly, working towards meeting its design capacity and production target at Apple Tree Creek.

PLANT OPERATIONS

Leaf is pleased to report that work on the front end handling and wood feedstock sizing has now been optimised. Throughput rates now demonstrate good control, enabling throughput at the primary design capacity to meet 8,000tpa natural pine chemical production.

Having met the target throughput design capacity, important parallel work on the desolventisation phase and back end of the process has been completed to determine required optimisation, enabling continuous operation. Automation installation, logic design and testing has been successfully completed, which allows full process control for the entire plant.



Leaf's plant at Apple Tree Creek

Now that the full process control has been achieved, the project engineering team is focused on the desolventisation phase, which is the next step to ensure that production targets are met. This is a critical milestone and inflection point, that once reached, will mean the Apple Tree Creek Plant will be in production scale-up phase.

All key bottlenecks and process control issues have been isolated, and the necessary work is currently underway to bring the desolventiser unit up to the required yield to meet recovery targets in the coming quarter.

A milestone is that the first production of rosin from plant was achieved throughout the quarter.

The first sales order of pine chemicals product was delivered to Yasuhara Chemical Co. LTD (“Yasuhara”). Customer testing reaffirms product quality that is 100% natural.

Staffing at the Apple Tree Creek site has continued with appointments and training of operational and production staff proceeding well.

Customer demand for rosin and turpentine remains strong, with enquiries from a range of companies in different geographies.



Leaf's natural rosin, produced at Apple Tree Creek

PINE STUMP PROCESSING

Pine stump processing is successfully confirming that the higher yielding pine stumps are a suitable feedstock, which significantly increases the availability of wood supply for Leaf's unique pine chemical manufacturing process.

A 1,000 tonne processing of stumps has been completed, allowing optimisation of forestry procedures for the harvesting, handling and processing of stumps and the ability to maximise productivity of feedstock supply at the Apple Tree Creek plant.

Leaf has pleasingly confirmed that a 100kg pine stump can be extracted and processed within 1 minute, allowing for further upside to project unit economics.

These outcomes confirm ample economic supply of stumps are available from the surrounding forest for all planned expansions at Apple Tree Creek plant.

In this respect, contractors have commenced procuring the specialist equipment for the commercial supply of stumps to Leaf.

In addition to the ongoing stump processing, management is reviewing two other key supply options for Apple Tree Creek which are under active evaluation. This work should provide multiple supply options for the Company's growth strategy at Apple Tree Creek and beyond, once the plant has reached designed production rates.

OTHER PROJECTS

The wood pellet supply project is underway with planning on the development, implementation and construction of two wood pellet production lines.

Wood pellets are a logical progression for the Company given that the feedstock for wood pellets is wood chips which are currently being produced in large quantities. Leaf is in early-stage discussions with potential customers for its wood pellets.



Wood chips being produced at Apple Tree Creek

As previously disclosed, advanced work is underway on developing the plant throughput to 16,000tpa pine chemical production.

OUTLOOK

The focus for the December 2021 quarter is yield and recovery manufacturing processes, which will ultimately allow the plant to produce quality product at scale and generate positive cash flow. It is expected that Leaf will commence maintainable production before the end of calendar year 2021.

Following this, the Company will work towards consistent positive cash flow from operations while securing further stump supply to move in lockstep with natural pine chemical production targets.

FINANCIALS

The Company expects to receive an R&D tax refund of \$1.4m during the current December quarter.

In addition, the Company has funds of \$5.2m as at 30 September 2021. Leaf confirms that it is well funded to execute on the above outlook statements.

TERRY GRAY

Director

terry.gray@leafresources.com.au

Appendix 4C supporting notes

During the period the Company incurred expenditure of \$496,000 in relation to administrative and corporate costs and \$832,000 in relation to staff costs. A total of \$792,000 of operating costs and \$672,000 of property, plant and equipment was expended during the quarter in relation to the Apple Tree Creek site. The Company completed a capital raising of \$8,000,000 before costs during the period.

Fees, salaries and superannuation contributions paid to Directors during the quarter amount to \$250,000 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	Estimate¹ (as per prospectus 17 Nov 2020)	Actual (From re-admission to 30 Sep 2021)	Variance Under / (Over)
Type	\$'000	\$'000	\$'000
Optimisation of the Apple Tree Creek Plant	\$2,054	\$1,239	\$815 ⁽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	\$420	\$3
Working capital and administration and corporate costs	\$223	\$534	(\$311) ⁽⁵⁾
Total	\$3,000	\$3,000	\$0

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 December 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 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--

ABOUT LEAF RESOURCES

Following the acquisition of Essential Queensland Pty Ltd (“EQ”) in December 2020, Leaf Resources is embarking on the biggest step-change the pine chemicals industry has experienced since the 1950’s. It has developed a world-first, proprietary process for extracting pine chemicals in a sustainable and scalable way.

Leaf applies the patented natural organic solvent production process to extract sustainable and clean pine chemicals from resinous pine logs and stumps at significantly lower cost than existing global supply, without the chemical additives traditionally used.

Leaf and EQ technologies enable the replacement of petroleum-based chemicals and plastics as society moves towards the bio economy.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

LEAF RESOURCES LIMITED

ABN

18 074 969 056

Quarter ended ("current quarter")

30 September 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	76	76
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(793)	(793)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(833)	(833)
(f) administration and corporate costs	(497)	(497)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(76)	(76)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(2,123)	(2,123)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(672)	(672)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other - Proceeds received on acquisition of Essential Queensland Pty Ltd	-	-
2.6	Net cash from / (used in) investing activities	(672)	(672)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	8,000	8,000
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(480)	(480)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(144)	(144)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (principal portion of finance leases)	(41)	(41)
3.10	Net cash from / (used in) financing activities	7,335	7,335

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	743	743
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,123)	(2,123)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(672)	(672)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	7,335	7,335
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	5,283	5,283

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	5,283	743
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	5,283	743

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	250
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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.

Includes Directors Fees, salaries and superannuation contributions.

7.	Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
	<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1	Loan facilities	2,321	2,321
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	2,321	2,321
7.5	Unused financing facilities available at quarter end		0
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.		
	<p>7.1 – represents an unsecured loan facility of \$321,000 from Jobrat Pty Ltd. The loan has a maturity date of 30 September 2021 and an interest rate of 15% per annum payable on maturity of the loan. The loan and any accrued interest was repaid on 1 October 2021.</p> <p>On 29 April 2021 the Company entered into a secured finance facility with Altor Capital. The total facility amount is \$2,000,000 with an interest rate of 11% per annum and term of 3 years with monthly principal and interest repayments. Under the facility agreement Altor Capital received 4,000,000 options with an exercise price of \$0.13 and expiry date of 3 years from issue.</p>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(2,123)
8.2	Cash and cash equivalents at quarter end (item 4.6)	5,283
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	5,283
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.5
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	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?	
	Answer: N/A	
8.6.2	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?	
	Answer: N/A	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: N/A	
	<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

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: 29 October 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 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 standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
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.