

QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C FOR QUARTER ENDING 30 JUNE 2022

Highlights from the quarter:

- ✓ Placement to sophisticated and professional investors completed to raise \$5.1 million, plus \$1.5 million convertible notes converted to equity
- ✓ Fully operational replacement 16,000 tonnes per annum (“tpa”) plant was acquired in May 2022 and will potentially enable doubling of production
- ✓ Yashura Chemical has reaffirmed its offtake agreement for market leading rosin and terpene products
- ✓ Leaf Resources resumed trading on the ASX on 21 July 2022

Leaf Resources Limited (ASX: LER) (“**Leaf**” or “**Company**”), an Australian natural and renewable pine chemicals company, is pleased to provide a summary of its activities for the quarter ended 30 June 2022 and attach its Appendix 4C. During the quarter, the Company acquired a critical, specialised and fit-for-purpose equipment with a capacity to produce 16,000 tpa of Leaf’s natural and renewable pine chemical products. The capacity of the plant prior to the Apple Tree Creek incident was 8,000 tpa. The acquisition of this new plant could potentially double Leaf’s production of its products. Following this, the Company successfully completed consecutive capital raisings, totaling \$6.6 million and recommenced trading on the ASX.

PLANT UPGRADE, RELOCATION AND COMMISSIONING

In May 2022, Leaf acquired key replacement equipment with a capacity to produce up to 16,000tpa of Leaf’s natural and renewable pine chemical products. Leaf’s new plant, currently in New Zealand, is being dismantled, chemically cleaned, water blasted and repainted. Key components will be ready for shipment in the coming weeks. It is anticipated that post shipment and subsequent rebuild at its new Queensland site, commissioning will take place in the March 2023 quarter, with sales of the first pine chemical expected to commence during the same quarter.

SHARE PLACEMENT AND NOTE CONVERSION RAISES \$6.6 MILLION

To fund the purchase of the replacement plant, the Company issued 1,510,000 convertible notes (“**Note Issue**”) to raise \$1.51 million in May 2022. These notes were subsequently converted into fully paid ordinary shares at a conversion price of \$0.027 in July 2022 (“**Convertible Note Shares**”). The noteholders will receive, subject to shareholder approval, one free-attaching option to acquire a share for every two Convertible Note Shares issued (“**Options**”), with an exercise price of \$0.045 each and expiring on 31 August 2023.

In addition to the Note Issue, the Company undertook a placement in July 2022 to sophisticated and professional investors to raise \$5.1 million through the issue of approximately 170.0 million fully paid ordinary shares in the Company ("**Shares**") at \$0.03 per Share ("**Placement**"). Participants in the Placement will receive, subject to shareholder approval, one free-attaching Option for every two Shares subscribed for in the Placement, with an exercise price of \$0.045 each and expiring on 31 August 2023.

Insurance recoveries received to date totaled \$1.4 million, with a further \$3.2 million expected to be claimed and received as capital expenditure for the upgraded plant. This will be invoiced to the insurer.

The Company also expects to receive a further \$2.4 million from the R&D tax rebate later in 2022.

The Company believes that combining the above will ensure that Leaf has sufficient capital to cover the relocation of its new plant in New Zealand to Queensland and complete the rebuild.

BOARD UPDATE

Leaf Resources has advised that Mr Grant Yeatman has stepped down from the Board as of 21 July 2022, and that he will continue in his role as Chief Operating Officer in charge of the plant rebuild.

APPENDIX 4C SUPPORTING NOTES

During the period the Company incurred expenditure of \$478,000 in relation to administrative and corporate costs, \$655,000 in relation to staff costs, \$299,000 of operating costs and \$3,006,000 of property, plant and equipment costs. The Company received a total of \$1,400,000 in insurance recoveries and net borrowing proceeds of \$1,359,000. Fees, salaries and superannuation contributions paid to Directors during the quarter amount to \$243,000 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 30 Jun 2022) \$'000	Variance Under / (Over) \$'000
Type			
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 was completed during the December 2021 period.

³ The completion of the Apple Tree Creek plant experienced delays over the December 2020 and January 2021 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.

For more information please contact:

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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.

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 June 2022

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	35	174
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(299)	(1,892)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(655)	(2,944)
(f) administration and corporate costs	(478)	(2,063)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(72)	(457)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	20
1.8 Other (provide details if material)	240	3,012
1.9 Net cash from / (used in) operating activities	(1,229)	(4,150)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(3,006)	(3,986)
(d) investments	-	-
(e) intellectual property	-	-
(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 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 – Insurance recoveries	1,160	1,160
2.6	Net cash from / (used in) investing activities	(1,846)	(2,826)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	8,000
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	291
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(480)
3.5	Proceeds from borrowings	2,061	2,321
3.6	Repayment of borrowings	(702)	(2,913)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (principal portion of finance leases)	(49)	(188)
3.10	Net cash from / (used in) financing activities	1,310	7,031

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,555	743
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,229)	(4,150)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,846)	(2,827)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,310	7,031
4.5	Effect of movement in exchange rates on cash held	(45)	(53)
4.6	Cash and cash equivalents at end of period	745	745

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	745	2,555
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)	745	2,555

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	243
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

Includes Directors Fees, salaries and superannuation contributions.

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	1,356	1,356
7.2	Credit standby arrangements	-	-
7.3	Other (convertible notes)	1,510	1,510
7.4	Total financing facilities	2,866	2,866
7.5	Unused financing facilities available at quarter end		0
7.6	<p>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> <p>7.1 – On 29 April 2021 the Company entered into a secured finance facility with Altor Capital. The total facility amount was \$2,000,000 on establishment with an interest rate of 11% per annum and term of 3 years with monthly principal and interest repayments. To 31 March 2022 the Company has repaid \$491,000 of principal. 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. During May 2022, the facility was amended to enable the Company to draw down an additional \$500,000. The \$500,000 additional draw down was repaid during May 2022 upon receipt of Insurance recoveries. In return for the amended facility agreement, the original 4,000,000 options were cancelled and 10,000,000 options with an exercise price of \$0.04 and a 3 year term to expiry were issued.</p> <p>7.3 – During May 2022, the Company issued 1,510,000 convertible notes to external investors. The notes have a face value of \$1.00, a term of 3 months, conversion price of \$0.27 per share upon a successful equity capital raising and accrue interest at 12.00% per annum. On 20 July 2022 the 1,510,000 were converted to ordinary shares of the Company and the accrued interest was repaid in cash.</p>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,229)
8.2	Cash and cash equivalents at quarter end (item 4.6)	745
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	745
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	0.6
	<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: Yes.	

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: Yes - as disclosed in the ASX announcement "*Business Update*" released 19 July 2022 the Company has successfully completed a capital raising of \$4.7m with an additional \$0.4m to be received in August.

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: Yes – based on the comments included in 8.6.2.

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.

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 July 2022.....

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.