

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

Highlights:

- ✔ Achieved first sales order of pine chemicals product from Yasuhara Chemical Co. LTD (“Yasuhara”)
- ✔ Strong customer demand for its natural pine chemicals
- ✔ Pine Stump trials were successful confirming, higher yielding pine stumps are a suitable feedstock which significantly increases the availability of wood supply for pine chemical manufacturing
- ✔ Decision announced to double operational production capacity to 16,000tpa
- ✔ Wood pellet production fast-tracked with exceptional return on invested capital expected
- ✔ \$8m placement completed in July and funding in place for growth
- ✔ Appointment of Chief Technical Officer to drive R&D and product enhancement

Leaf Resources Limited (ASX: LER) (“Leaf” or “Company”), positioned 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 June 2021. During the quarter, Leaf confirmed it is proceeding to double operational capacity of its natural pine chemical products from 8,000tpa to 16,000tpa following the successful capital raising in July. The Company also identified an opportunity to manufacture high value wood pellets using the lower value wood chip already being produced as the feedstock for pellets. At the new operational capacity, two pellet lines are expected to have a pay-back period of 6-months and generate additional annual revenue of \$8.0m⁽¹⁾ to Leaf.

The increase in rosin and terpene production in combination with wood pelletisation is expected to increase annual revenue potential to approximately \$69.5m⁽¹⁾, when operating at full capacity.

The Company confirms it is on track for 8,000tpa production run-rate despite a brief slow down for 3-4 weeks due to recent Covid-19 lockdowns.

Production ramp up is continuing in the September quarter and running in parallel with expansion activity.

(1) Refer to ASX announcement “Capital Raise and Business Update” dated 15 July 2021 for further details.

CHIEF TECHNICAL OFFER APPOINTMENT

Alex Baker, (BSc, Grad Dip. Biotech, Masters of Technology Management, MAICD and completing an MBA specializing in Sustainability at University of Cumbria), with over 25 years experience in the bio-industrial space and previously advisor to the Board, will join Leaf as Chief Technical Officer to lead Leaf’s research and development activities and product development. He will work alongside Ray Mountfort, the Company’s founder and managing director. Leaf is currently in the process of securing an industrial site for its quality control and research & development lab which will focus on commercial opportunities to improve and add value to its natural rosin and terpenes. A primary short list of products has been identified for development. Alex and a specialist technical team will focus on these product candidates for initial test work. All such development is expected to deliver quick investment pay back.

Alex Baker said “I am excited to join Leaf at this phase to work with Ray and the executive team to further drive value in the natural rosin and terpene products. The opportunity to build a low carbon renewable chemical portfolio from both the pine chemicals and the fibre co-products, firstly as a wood pellets, is very strong from a technical, geographic and demand perspective.”

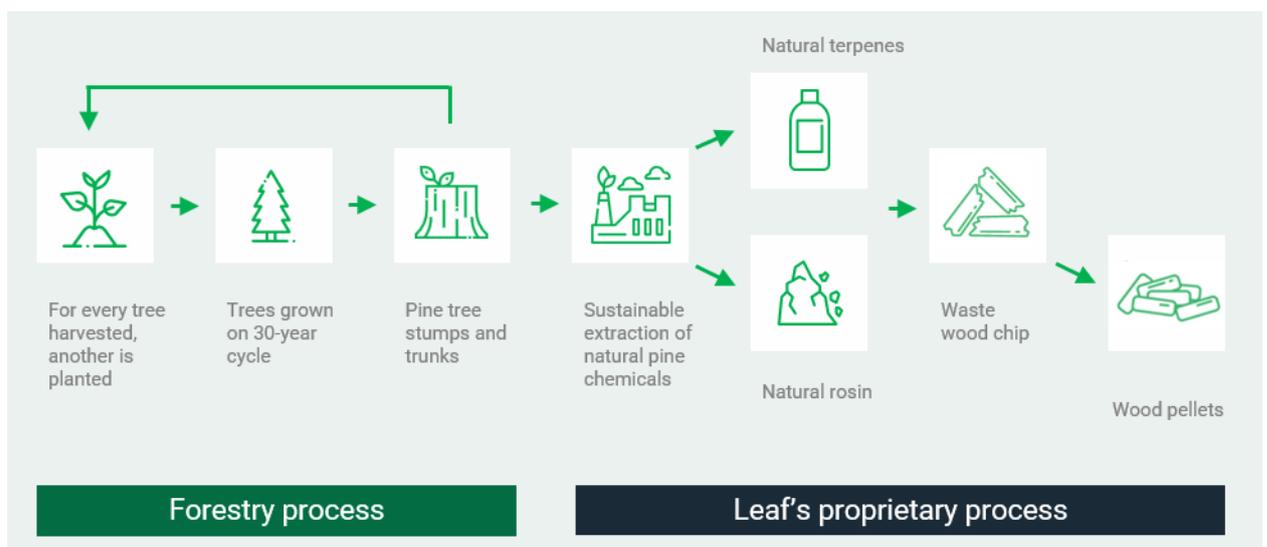
CUSTOMER DEMAND AND MARKETING

The Company received its first purchase order for its natural terpene product and is continuing to increase marketing activities as production scales. During the quarter, Leaf launched its new website (<https://leafresources.com.au/>) which has already resulted in strong inbound inquiries.

Leaf is experiencing strong customer interest for natural rosin and terpenes which contain no residual unnatural chemicals, as confirmed by Yasuhara. Contract sizes for various customers range from 2,000t to 5,000t.

WOOD PELLET PRODUCTION

Leaf is working 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 are wood chips which are already being produced in large quantities. The supply of wood chips will continue to grow with the expanded 16,000tpa capacity.



Wood pellet production is expected to increase the Company's future revenue by an additional \$8.0m per annum at the new full production rate of 16,000tpa. Installed wood pelletisation equipment capex is estimated at \$4m and pay-back is estimated at 6-months at full production. Leaf can generate such positive returns as the waste wood chip from the chemical process is an excellent prepared feedstock for pelletisation.

Wood pellets (biomass) are a low-cost, low-carbon alternative to coal and are a renewable source of energy. Wood-based bioenergy is part of an all-in renewables strategy as explicitly recognised by the Intergovernmental Panel on Climate Change (IPCC) to reduce carbon emissions and limit dependence on fossil fuels. Wood pellets reduce toxic emissions compared to fossil fuels such as coal which release arsenic, carbon monoxide, sulphur and carbon dioxide when used for heat and energy.

Rising awareness about renewable energy sources and reduction in greenhouse gas emission in power generation are anticipated to propel the power generation segment of the global wood pellet market in the near future. The wood pellet market is expected to increase at a robust CAGR of 11% p.a. between 2020 to 2030 (Transparency Market Research July 2021).

APPLE TREE CREEK SITE



Leaf's Apple Tree Creek Plant, July 2021

Appendix 4C supporting notes

During the period the Company incurred expenditure of \$766,000 in relation to administrative, corporate and staff costs. A total of \$307,000 of operating costs and \$2,028,000 of property, plant and equipment was expended during the quarter in relation to the Apple Tree Creek site. The Company received \$2,000,000 under a secured finance facility with Altor Capital.

Fees, salaries and superannuation contributions paid to Directors during the quarter amount to \$206,000 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 June 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	\$374	\$49 ⁽⁵⁾
Working capital and administration and corporate costs	\$223	\$534	(\$311) ⁽⁶⁾
Total	\$3,000	\$2,954	\$46

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 September 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 paid subsequent to 30 June 2021.

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.

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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.