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Manager Companies
Companies Announcements Office
Australian Securities Exchange Limited

CHAIRMANS LETTER

I wanted to take this opportunity to update you on the progress we are making on the Leigh Creek Energy Project (LCEP), our strong relationship with China New Energy Group Limited (CNE), progress on the corporate front and on the recent 249D notices received from a small group of shareholders.

LCEP Progress

As a company we are making great progress. We have continued with our extensive and ongoing consultation with the South Australian Government and have always been encouraged by their positive attitude. We are making great progress on the Pre-Commercial Demonstration (PCD) and we are entering an exciting time where we have moved past design and are actually procuring the equipment for the PCD facility. Now that equity contributions by CNE under Tranches 1 and 2 of the Subscription Agreement dated 30th March 2017 (reference ASX release 30th March 2017) are completed we have the capacity to move forward quickly and the level of motivation and activity in the Company is very positive with all staff focussed on our drive to flare gas in 2017.

On the 26th of June 2017 we were able to announce that the programme for drilling baseline groundwater and pressure monitoring wells was completed. This programme comprised three groundwater monitoring wells and one pressure monitoring well. Data from these wells will now be analysed to complete the conceptual model for environmental baseline characterisation. The conceptual model identifying the baseline environmental conditions of the PCD is an essential input into the documentation requirements for the regulatory approval to construct and operate the PCD. This is a significant achievement by the team and I want to congratulate them for a great effort and result.

Relationship with CNE

I want to touch on the investment in LCK by CNE. When we first announced the agreement for CNE to become shareholders in LCK we were very excited that such a large company was backing us both in the short and long term. CNE and their parent Meijin Energy Group were prepared to invest \$20m in a demonstration facility, and they have access to large amounts of capital when we are ready to progress to commercial development. They are not simply an investor who wants to get a return on their investment but a strategic investor who recognises the great potential of LCK and wants to be part of that long term future. It should come as no surprise that CNE and their parent company is involved in steel manufacturing, power generation and of particular relevance is that they own and operate a fertiliser/urea plant. All these activities require large amounts of both gas and electricity. CNE recognised that once LCK is in commercial production we will have abundant energy potentially processed in the form of both electricity and gas.

The level of co-operation with the SA Government and the positive support of CNE was clearly demonstrated when the CNE team were in Adelaide and met with the LCK team, visited the Leigh Creek site, met with the SA Government Departments and the Minister. The visit was so successful and CNE were so encouraged by

what they saw and the messages they received from everyone that they completed Tranche 2, more than two weeks ahead of schedule whilst they were in Adelaide.



CNE and LCK delegation meeting with the Hon. Tom Koutsantonis MP, Treasurer and Minister for Mineral Resources and Energy and Minister for State Development (centre), Mr Yao, Vice President, Meijin Energy Group (centre), Mr Wang, Vice President CNE (far right), Justyn Peters, LCK Chairman (far left).

I am proud of our association with CNE and Meijin Energy Group as these are companies with a strong track record in industrials and coal. Some of the comments we received when the announcement was made were sceptical on the basis that not all deals announced with Chinese Companies are ultimately completed. There was some scepticism that CNE would complete. Yet CNE have demonstrated in both Tranche 1 and Tranche 2 of the Subscription Agreement that not only have they met their commitment to LCK, they have exceeded it by paying ahead of time on both Tranches.

Corporate Progress

It is appropriate to update the market on the recently announced Notice of Meeting by LCK to be held on the 21st of July 2017. As stated we are proud of our association with CNE and the vote to be put to shareholders on the 21st of July 2017 is for the shareholders to ratify placement of shares to CNE in Tranche 1 and 2. This will allow LCK a refresh on shares already placed, provides flexibility in the future and importantly allows all LCK shareholders to send a very positive message to CNE by supporting their investment in LCK. It is the boards' recommendation to all shareholders to vote in favour of the resolutions.

I am pleased to inform you that Tranche 3 is progressing towards completion. We have engaged an independent advisor to complete the Independent Experts Report (IER) required to provide impartial and credible advice to investors for the purpose of an independent assessment of the Tranche 3 investment. As this Tranche will take CNE to greater than a 19.9% shareholding the IER is required to assist shareholders in assessing whether or not to approve this transaction. We expect to have this report completed as soon as practicable. Upon completion of the IER we will then arrange to call the required General Meeting for shareholders to vote on the transaction.

When we made the initial announcement of the placement to CNE we stated that Tranche 3 would occur no later than eight weeks after the completion of Tranche 2. As it has turned out this is not possible, as Tranche 2 was completed close to three weeks ahead of schedule, and the undertaking of the IER, the obtaining of statutory approvals and the mandatory notification period for a General Meeting will mean that the meeting will need to be delayed. This modification to the timelines has been agreed to between LCK and CNE. We can

say that we are working as fast as we can to call the required meeting of shareholders and expect this to be completed in September.

249D Notices from a Small Group of Shareholders

As an update to shareholders you would already be aware that on the 2nd of May 2017 we were served with a 249D notice by a group of shareholders that included the previous Managing Director. After seeking legal advice, the Board of Leigh Creek Energy (LCK) determined that the notice was invalid and as such did not call a meeting as requested.

On the 2nd of June LCK was again served with a 249D notice by substantially the same group. Again after seeking legal advice the Board of LCK determined that this notice was invalid and as such did not call a meeting as requested.

In June LCK was served with a notice by one of the same shareholders requesting the LCK shareholders register with the intent of calling a general meeting. Again after seeking legal advice the Board of LCK determined that the request was invalid and as such did not provide them with the register.

It is extremely frustrating that a small group of shareholders feel the need to distract the Company from its goals and objectives. The amount of time, and cost, of dealing with these notices is not insignificant.

Bearing in mind the importance to LCK of attracting a well credentialed, long term, strategic investor, I was personally very surprised when this small group of shareholders attempted to lodge their first 249D notice only days after the announcement of this important strategic investment by CNE.

We need to allow the Company to focus on its goals free from needless distractions and the costs and time wasting of these continual demands. Whilst the Company has completed tranche 1 and 2, we put the whole process at risk if there is destabilisation during this process, including completion of tranche 3 funding.

Summary

In conclusion, the Project itself is moving ahead rapidly, we are financed to the production of Syngas from the PCD, we have been given great encouragement by the SA Government, we have access to capital through CNE and their parent once Syngas is produced and commercial approvals are obtained. I am very confident in our team and their ability to deliver on the PCD and our future in South Australia.

The minority group of shareholders are free to express their discontent, along with all shareholders, at the next AGM, which is only a few months away.



Justyn Peters
Executive Chairman