

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

Highlights:

- ✓ Apple Tree Creek construction likely to be deferred until Q1 CY23
- ✓ Currently bringing forward the assessment of an additional plant in Rotorua in New Zealand
- ✓ Compelling long term benefits from operating in New Zealand
- ✓ Erich Van Zyl appointed Chief Financial Officer with Drew Speedy to continue as Company Secretary.

Leaf Resources Limited (ASX: LER) ("Leaf" or "Company"), an Australian natural and renewable pine chemicals company wishes to provide an update in relation to the status of the Apple Tree Creek site and a possible additional site it is assessing in New Zealand.

APPLE TREE CREEK QUEENSLAND

The New Zealand plant has been substantially dismantled with 30 40ft containers packed and ready for shipping with the remainder of the plant estimated to be ready for transport by December. However, Leaf has experienced delays in the shipping of its recently acquired New Zealand plant to Apple Tree creek in Queensland. These delays are due to:

- adverse weather conditions at the site's current location in Taupo, New Zealand;
- labour supply issues in Taupo;
- unforeseen Australian Government biosecurity compliance issues related to the removal of wood residue, dirt and rust from equipment prior to entering into Australia; and
- over booked shipping schedules.

The Company estimates these delays will result in a December shipment from New Zealand. As a result, it is unlikely that new plant construction in Queensland will commence until Q1 CY23.

Moreover, protracted discussions are continuing with the intended pine stump supplier in Queensland that has asked for additional conditions, including extended trials with negotiations still ongoing.

The Company is working through these issues and will update the market at the earliest opportunity.

ROTORUA, NEW ZEALAND

During September and October, Ray Mountfort, Managing Director, spent considerable time in New Zealand reviewing and assessing the dismantling process while also reviewing potential sites for a second plant that had been planned for late FY24

As a result of the work carried out during this period, he has recommended to the board that the Company could instead consider building the first plant at Rotorua in New Zealand and to establish Apple Tree Creek as the second site given the delays that have occurred.

Rotorua is the city at the center of forestry and services to forestry for New Zealand. It has a resident population of 77,000 just 6kms away from the site, with Tauranga, a population of 130,000 67km away via a State Highway. Tauranga is the largest city in the Coastal Bay of Plenty.

After conducting extensive consultations and research, Leaf is assessing a business case for relocating the plant from Apple Tree Creek, Queensland to Rotorua, New Zealand. A final decision on this is expected to be made by the end of November 2022 and a further detailed update will be made to the market, including financial considerations.

While in a different location, effectively LER would execute the same business plan, with the same plant in a well-suited and strategic location.

This plan would have the added benefit of alleviating any potential supply bottlenecks as a New Zealand site would be surrounded by over 200 potential suppliers.

ERICH VAN ZYL APPOINTED CHIEF FINANCIAL OFFICER

Erich joined Leaf resources as its Financial Controller in October 2021. Over the last year, he has been spearheading financial initiatives during a challenging time. He has shown great aptitude and resilience in pursuing insurance claims, R&D grants, and day-to-day accounting. In addition to being a reliable sounding board for strategic business decisions. He will be taking over from Drew Speedy who will continue as Company Secretary.

R&D REFUND

Leaf Resources lodged its 2022 Income Tax Return during October 2022. The Company is expecting a refund of \$1,904,000 by early November as a result of its R&D tax offset.

APPENDIX 4C SUPPORTING NOTES

During the period the Company incurred expenditure of \$707,000 in relation to administrative and corporate costs, \$621,000 in relation to staff costs, \$124,000 of operating costs and \$1,162,000 of property, plant and equipment costs. The Company raised \$5,100,000 in capital and received borrowing proceeds of \$113,000. Fees, salaries and superannuation contributions paid to Directors during the quarter amount to \$192,000 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 Sep 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 Resources is pioneering the next generation of pine chemical manufacturing using low-value wood, natural solvents, and steam. The wood byproduct is transformed into wood pellets. Helping the transition toward the bioeconomy.

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 2022

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	5	5
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(124)	(124)
(c) advertising and marketing	(22)	(22)
(d) leased assets	-	-
(e) staff costs	(621)	(621)
(f) administration and corporate costs	(707)	(707)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(108)	(108)
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	(1,577)	(1,577)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1,162)	(1,162)
(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	(1,162)	(1,162)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	5,100	5,100
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	(361)	(361)
3.5	Proceeds from borrowings	113	113
3.6	Repayment of borrowings	(208)	(208)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (principal portion of finance leases)	(51)	(51)
3.10	Net cash from / (used in) financing activities	4,593	4,593

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	745	745
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,577)	(1,577)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,162)	(1,162)

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)	4,593	4,593
4.5	Effect of movement in exchange rates on cash held	(49)	(49)
4.6	Cash and cash equivalents at end of period	2,550	2,550

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	2,550	745
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)	2,550	745

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	192
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.

<p>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></p>	<p>Total facility amount at quarter end \$A'000</p>	<p>Amount drawn at quarter end \$A'000</p>
7.1 Loan facilities	1,268	1,268
7.2 Credit standby arrangements	-	-
7.3 Other	-	-
7.4 Total financing facilities	1,268	1,268
7.5 Unused financing facilities available at quarter end		0
<p>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> <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 30 September 2022 the Company has repaid \$805,000 of principal.</p> <p>In addition to the Altor facility, the Company has short-term borrowing facilities on insurance premiums. During the quarter the Company extended its facilities on these borrowings by \$113,000.</p>		

<p>8. Estimated cash available for future operating activities</p>	<p>\$A'000</p>
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,577)
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,550
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	2,550
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.6
<p><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></p>	
<p>8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:</p> <p>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?</p> <p>Answer: Yes.</p> <p>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?</p> <p>Answer: Yes, the company is expecting to receive \$1,900,000 in tax incentives during the next quarter.</p>	

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 expected tax incentives. The company is also working on securing additional capital.

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: 31 October 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.