



21 November 2019: ASX ANNOUNCEMENT (ASX: LCK)

## Chairman's Letter

Dear Shareholders,

I want to take this opportunity at our 2019 AGM to update you on the progress we are making on the Leigh Creek Energy Project (LCEP) since the release of our Annual Report and the September Quarterly Report. This year has seen the delivery of many important milestones for the Company.

At last year's AGM on the 18<sup>th</sup> of October 2018, we had just commenced gasification of our Pre-Commercial Demonstration (PCD) plant. It is a simple statement but one that contained so much hard work behind it. We worked through a long approvals process including a change of government, defended a last minute court challenge, amongst other hurdles. However, we commenced, operated and successfully shut down the PCD during this year.

We also achieved all of our stated PCD objectives and more, including producing syngas at over 1 million cubic feet per day, demonstrating that we can operate the ISG gasifier safely and in an environmentally responsible manner, providing information for the development of the commercial project, and providing the information required for PRMS upgrade that was subsequently achieved on the 27<sup>th</sup> of March 2019. On the 14<sup>th</sup> of June 2019, we also successfully completed the shutdown of the PCD.

I want to take this opportunity to discuss other important milestones achieved since completion of the PCD and the complete lack of media reporting on these achievements. The lack of media coverage is significant, as this coverage gives the larger stakeholder community access to information on projects such as ours and should provide balanced reporting on us and our competitors.

### PRMS Certification

On the 27<sup>th</sup> of March 2019 we announced that we had achieved a PRMS certification of 1,153.2 2P reserve. This was the largest uncontracted East Coast 2P gas reserve. To say that this was a significant milestone is something of an understatement. This is particularly relevant when looking at other gas basins in Australia. LCK had more 2P Gas reserves than the Cooper, Ottway, Bass and Galilee (*as of June 2018, source ACCC interim Gas report December 2018*). Despite this reserve size, we received no media coverage at all from the major national newspapers.

### Commercial Approval Process

On the 2<sup>nd</sup> of August 2019 we announced that the PCD had been operated safely and most importantly we had met all of our environment obligations. We were confident we would be able to do this, but we were now able to demonstrate this. We also agreed on a pathway forward on a commercial approval process.

The future approval process involves submitting environmental documents for the first-stage of the commercial project, acquiring additional baseline data to support the next stage and broadening the scope beyond the PCD footprint to include the full resource, and the associated approvals.

This announcement proved we could operate environmentally safely and that we had and would continue to work through the approvals process with the government to ensure this was the case. Yet we received no

coverage in the national media, despite all the previous negative media attention on ISG and its environmental credentials.

### **CNE HOA**

On the 19<sup>th</sup> of August 2019 we announced that we had signed a Heads of Agreement with CNE to focus on hydrogen and fertiliser production in China, and that we had been invited to join the Shanghai International Energy Exchange (the only Australian Company to have been invited at this time) and again, received no national coverage.

### **Urea opportunity**

It is my view that along with the 2P PRMS gas reserve the announcement we made on the 10<sup>th</sup> of September 2019 is perhaps the most exciting and commercially relevant announcement we made this year. We stated in that announcement:

- We have a disruptive process resulting in urea production prices of sub USD\$100 ex plant.
- Have low cost gas feedstock at lower than AUD\$1.00/GJ.
- That LCK will have price stability over the life of the project.
- That LCK will have gas supply stability over the life of the project.
- That Thyssenkrupp Concept Select Study confirms project viability.

We can produce the syngas as low as AUD\$1.00/GJ. This cost is based on LCK being able to produce commercial syngas as confirmed in our 2P PRMS reserve, and includes all costs such as drilling, well head, casing, compression, peripheral equipment, gathering systems, separation, cleaning gas plus OPEX for gasifier operation. The fact that we can produce gas at such a low cost led the conclusion that we could produce urea at sub USD\$100/tonne. *(All these cost assumptions are independently verifiable and provided by third parties)*

Unlike our competitors our syngas costs will be stable throughout the project life as production costs will not be affected by global energy prices which will rise over the life of any fertiliser plant and foreign exchange fluctuations, both of which impact on other producers. AUD/US has fallen from above \$1.00 into the \$0.60 range, putting extreme pressure on Australian farmers and food producers. LCK welcome the opportunity to become a lower-cost provider of energy to the Australian market. Most importantly this puts the LCEP on par with the world's lowest cost urea producers, Saudi Arabia and Russia. LCEP will also have a significant cost advantage over the current Australian domestic production.

Once again we had it confirmed through highly reputable 3<sup>rd</sup> parties that we could produce syngas and urea at low cost. Yet again we were completely ignored by the national media. This is despite the fact that we import nearly all our fertiliser and the LCEP would ensure we produced urea in Australia and did not have to rely on imports.

The good news for LCK and our shareholders is that I can assure you this information has not gone unnoticed in the world of urea production. We have been contacted and are in discussions with 5 of the worlds largest urea producers. One of these parties conducted due diligence on us and came to the conclusion that our production costs and numbers are correct.

### **Future**

I have asked the question of our team and to our advisors why we have had minimal media coverage. We have made a number of major announcements and have received no coverage. One analyst stated to me that she went through all our announcements and that we had delivered on nearly 90% of all of our

statements. In a recent webinar I commented on this issue. I called it the credibility gap and that we have to close that gap.

There are two announcements our shareholders are waiting to hear that will close this gap and closing this gap is a major focus of our company over the next 12 months. The first is that we have a commercial agreement to sell gas, and/or that we have a partner locked in who has the strength and bank balance to fund the LCEP.

On the first issue we were and are in discussions with major gas buyers in Australia. This process has been lengthy and complex as I have previously stated. In one instance we were offered a contract to sell all of our gas but we were not happy with the price. There are two major issues that have to be taken into consideration in this process. One by the buyer and one by the seller (LCK).

The gas buyers we are in discussion with are concerned about any long term contracts, as they are not sure of how the Government will deal with gas shortage issues. As most of us would have read in the Financial Review recently several analysts are predicting that there will be a major gas shortage in 5 years. Questions remain about whether the government will regulate gas prices or introduce a carbon tax. Whilst uncertainty is making the process more difficult, in the end it will not be an obstruction.

From the gas sellers (LCK) point of view we have to determine which option gives us the best return on investment and what combination of gas and urea production will be ideal. The economics and our independent reports show very clearly that the most profitable avenue is to produce urea. However, this can be a staged process where we still have the ability to sell gas.

This year has been both a challenging and rewarding year. I want to thank our staff who have worked tirelessly to ensure we completed the PCD and worked as a team. I want to thank my fellow board members who have been a great support to myself and indeed the company. The next year will be about locking in our partners to obtain a clear commercial path forward and then beginning to execute this plan. Again, I look forward to updating you throughout the year.



Justyn Peters  
Executive Chairman

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