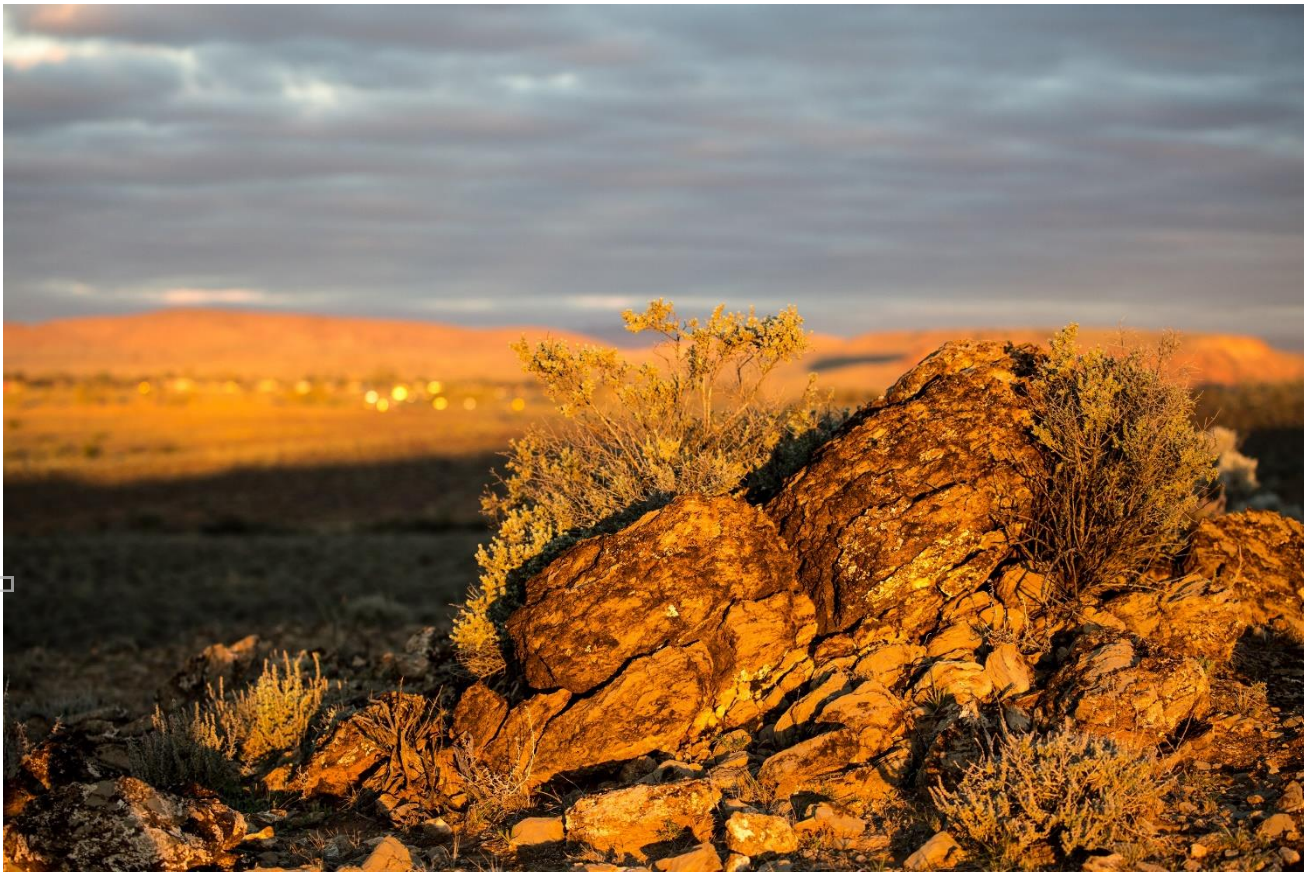
# Leigh Creek Energy Limited

## ANNUAL FINANCIAL REPORT

1st July 2020 to 30th June 2021



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## DIRECTORS' REPORT

Leigh Creek Energy Limited is a public company incorporated and domiciled in Australia and listed on the Australian Securities Exchange.

The directors present their report together with the financial statements of the consolidated entity, being Leigh Creek Energy Limited ("the Company" or "Leigh Creek Energy" or "LCK") and its controlled entities ("the Group") for the year ended 30 June 2021.

## DIRECTORS

The names of the directors in office at any time during or since the end of the year are:

| | |
|---|---|
| Daniel Justyn Peters | (appointed 28 November 2014) |
| Zheng Xiaojiang | (appointed 5 December 2017) |
| Zhe Wang | (appointed 1 July 2017) |
| Phillip Staveley | (appointed 5 December 2017) |
| Murray Chatfield | (appointed 30 June 2016) |
| Gregory English | (appointed 22 September 2015, resigned 22 June 2021) |

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

## INFORMATION ON CONTINUING DIRECTORS

**Daniel Justyn Peters – LLB, BA (Politics/Jurisprudence) GDLP**
Executive Chairman
Audit and Risk Committee Member
Director since 2014

*Experience & expertise*

Mr Peters joined Linc Energy soon after its listing on the ASX when Linc Energy was considered a world leader in underground coal gasification. In his six years at Linc Energy, Mr Peters held the positions of General Manager Environment and Government Relations, General Manager Business Development, Executive General Manager North Asia and finished as Executive General Manager of Investor Relations.

Before joining Linc Energy, Mr Peters was employed as National Property and Environment Manager and head of North Asia for Airservices Australia. Before his time with Airservices Australia, Mr Peters was used at the Queensland Environmental Protection Authority (EPA) as head of Investigations and Compliance and as acting Director of Central and Northern Regions. He managed the integration of the environmental regulation of the Queensland Mining Industry into the EPA. His experience across a broad range of business units from government and private sectors will prove invaluable in developing the Leigh Creek Urea Project.

*Other current listed directorships*

None

*Previous listed directorships (last three years)*

Emperor Energy Ltd – resigned 27 March 2019

**Phillip Staveley – CPA, BA (Acc) (Hons), Dipl Btr**
Managing Director
Director since 2017

*Experience & expertise*

Mr Staveley is a qualified Accountant who has 30 years' experience working in the resources sector.

He started his career in the oil and gas sector, working for Schlumberger in London, followed by several years with SAGASCO and SAOG (South Australian Oil and Gas Company). He spent almost ten years with Normandy Mining Ltd, fulfilling many planning, finance, M&A and commercial roles, including establishing a Group Supply Function and three years based in Rio de Janeiro as the CFO of TVX Normandy Americas.

Since 1998 he has been involved in mining and contracting companies in the position of CFO and, more latterly, CEO roles with an emphasis on strategy and corporate finance.

*Other current listed directorships*

None

*Previous listed directorships (last three years)*

Oakdale Resources Limited – resigned November 2017

**Murray K Chatfield – B Com Ag (Economics and Marketing), MBA, ACT, MAICD**
Non-Executive Director
Audit and Risk Committee Chair
Director since 2016

*Experience & expertise*

Mr Chatfield has extensive experience within finance with nearly 30 years' experience within investment banking, hedge funds and corporate finance both in Australia and internationally. He was a Senior Economist with the New Zealand government before joining Bankers Trust in London. He then moved into Hedge Funds initially as European Treasurer and then as a Partner and COO in a Relative Value Hedge Fund. He was the COO and Partner in an Australian based fund focussed on Global Macro events. He has been and is still actively involved as a Director of several unlisted companies in the Commodity and Marketing areas. Mr Chatfield's career covers finance, treasury, accounting, operational efficiency, risk management (business, market, tax and regulatory), legal and regulatory compliance and direct financial market interaction.

*Other current listed directorships*

None

*Previous listed directorships (last three years)*

None

**Zhe Wang** B.Sc (Thermal Dynamics) M.Eng (Energy Engineering and Thermal Physics)
Non-Executive Director
Director since 2017

*Experience & expertise*

Zhe is a Chinese based Energy and Thermal Physics Engineer and nominee of China New Energy Group Limited (one of Leigh Creek Energy's major shareholders). He has over eight years of Executive Management experience. Zhe also sits on the Board of Beijing Raise Mind Technology Ltd. Zhe's key areas of expertise include; Coal Combustion; Renewable Energy Applications, and Steel Sinter. He has a Bachelor of Thermo Dynamics, Renewable Energy Applications, as well as a Masters in Energy Engineering and Thermal Physics, Coal Combustion.

*Other current listed directorships*

None

*Previous listed directorships (last three years)*

None

**Zheng Xiaojiang** BCom
Non-Executive Director
Director since 2017

*Experience & expertise*

Zheng is a senior finance executive and brings vast experience in the finance sector in both Australia and China. His experience includes having been a senior official for The People's Bank of China in Australia and New Zealand. Zheng was responsible for facilitating the investment in Leigh Creek Energy by China New Energy, Leigh Creek Energy's largest shareholder.

*Other current listed directorships*

None

*Previous listed directorships (last three years)*

None

**Gregory D English – LLB, B.Eng (Mining)**
Non-Executive Director
Audit and Risk Committee Member
Director since 2015, resigned 22 June 2021

*Experience & expertise*

Mr English is an experienced and qualified mining engineer and lawyer with over 25 years of involvement in the resources industry. As a mining engineer, he has worked on underground and open-pit coal mines, including working as a mining engineer at the Leigh Creek Coalfield, where he lived in the Leigh Creek town. As a lawyer, Greg has acted for numerous oil and gas companies and advised on multiple gas marketing, gas transportation and similar transactions.

Greg's experience in the coal industry, particularly his knowledge of the Leigh Creek Coalfield, and his experience and contacts in the oil and gas industry have been significant assets to the Company.

*Other current listed directorships*

Archer Exploration Limited and Core Exploration Limited

*Previous listed directorships (last three years)*

None

**Jordan Mehrtens** LLB/LP, BCom (Fin), GDip (Planning)
Company Secretary
Secretary since 2015

*Experience & expertise*

Jordan Mehrtens is a qualified lawyer and has qualifications in finance and urban and regional planning. Since its commencement in 2015, she has worked with Leigh Creek Energy, providing regulatory, compliance, and other analytical advice. Jordan is a member of the Governance Institute of Australia and performs the secretarial role in the Company.

Damien Connor is a Chartered Accountant, Graduate of AICD and a member of the Governance Institute of Australia. Damien was appointed joint Company Secretary on April 14 2020, to assist whilst Jordan was on leave until August 2020.

## PRINCIPAL ACTIVITIES

The principal activity of the Group was advancing the development of its Leigh Creek Urea Project (LCUP) and developing conventional oil and gas projects.

## REVIEW OF OPERATIONS AND FINANCIAL RESULTS

Leigh Creek Urea Project:

The Company continued its progress towards full regulatory approval following the successful operation and decommissioning of the Pre-Commercial Demonstration Facility (PCD) at the LCUP last year.

The Company received the following approvals during the year from the Department for Energy and Mining:

- A Petroleum Production Licence (PPL 269) over part of PEL 650

The Company was also awarded two South Australia Cooper Basin Petroleum Exploration Licence Applications (PELA 675 & PELA 676) in July 2020.

The Company completed and published the Pre-Feasibility Study in November 2020, confirming the positive project economics for developing a urea manufacturing facility at Leigh Creek.

In January 2021, the Company awarded two major commercial contracts. The first was to inGauge Energy Pty Ltd to manage drilling services to develop initial gasification wells to provide the feedstock syngas for a 5MW power plant. The second was awarded to Prudentia Process Consulting Pty Ltd, to manage the selection, engineering, construction, and commissioning of the 5MW gas-fired power plant.

In March 2021, the Board of Directors made the Final Investment Decision (FID) for Stage 1 commercial of the Leigh Creek Urea Project, a 5MW power station.

In May 2021, the Company announced it had entered into a binding head of agreement with DL & EC Co., Ltd (Daelim) for Daelim to lead engineering and construction of ammonia and urea production infrastructure for the LCUP.

In June 2021, the Company awarded the Contract to Daelim. Daelim will manage the LCUP Bankable Feasibility Study (BFS), and Front-End Engineering & Design (FEED) stages ahead of the Final Investment Decision. Once the Final Investment Decision is achieved and all relevant key engineering data and project execution documents are finalised with LCK, Daelim will perform the engineering, procurement, construction and commissioning of the urea production facilities. In addition, Daelim has secured the support of a major Korean financial institution to fund 70% of the project, being approximately $1.5b. This is via a letter of support by that institution that is subject to the agreement of commercial terms and a positive FID. The balance of that funding is to be secured by a combination of debt and equity to other parties once FID is reached.

Finance and Corporate:

The consolidated operating loss of the financial year to 30 June 2021 was $13,574,173 (2020: $7,154,941). This includes share-based payments expenses of $4,206,504 (2020: $1,472,187). Expenditure incurred on the LCUP capitalised as Exploration expenditure, net of 2020/21 R&D tax offset rebates receivable was $3,602,336 (2020: $2,195,144).

In December 2020, the Company qualified as a signatory to the United Nations Global Compact after demonstrating and fulfilling the eligibility criteria for human rights, labour, environment, and anti-corruption required for businesses to partake in the world's largest corporate sustainability initiative.

In January 2021, the Company announced it had entered into an Institutional Share Placement agreement with Energy Exploration Capital Partners, LLC (EECP). The financing agreement consists of phased payments of up to $18m in $6m tranches. The initial tranche of $6m was received in January 2021 on the execution of the funding agreement. The Company will determine whether to exercise the Second Investment or the Third Investment, or both, at its sole discretion. LCK issued 4,029,851 shares in satisfaction of a fee payable to the Investor and issued 9.8m options exercisable at $0.236 (representing a 140% premium over the prevailing market price) to the Investor. The Company made an initial issuance of 6.75m Placement Shares to the Investor at the time of execution of the agreement, towards the ultimate number of Placement Shares to be issued. Alternatively, in lieu of applying these shares towards the aggregate number of the Placement Shares to be issued by LCK, the Investor may make a further payment to the Company equal to the value of these shares determined using the Purchase Price at the time of the payment. The Investor elected to purchase these 6.75m shares in May 2021.

In June 2021, the Company conducted an institutional placement for $18m before fees, with Evolution Capital Advisors acting as lead manager. The placement shares were issued at $0.18 per share with an attaching unlisted option exercisable at $0.28 within the next three years. Issue of the options will require shareholder approval. The placement price represents a 20% discount to the last trading price of $0.225 prior to the placement and a 21.6% discount to the 5 day VWAP. Evolution Capital Advisors Pty Ltd ('Evolution') acted as Lead Manager to the Placement. Evolution received a 6% fee on funds raised and will receive 10,000,000 options exercisable at $0.28 expiring in three years, subject to shareholder approval.

## ENVIRONMENT

LCK's activities are subject to state, national and international environmental laws, and regulations. Exploration, development, and production can be potentially environmentally hazardous giving rise to substantial costs for environmental rehabilitation, damage control and losses. LCK has a comprehensive approach to the management of risks associated with environment under its ESG policies which are embedded as a core part of LCK's approach to health, safety, environment, and community. This approach includes standards for asset reliability and integrity, technical and operational competency, and emergency response preparedness. The Board actively monitors compliance with Regulations and operational obligations and at the date of this report is not aware of any material breaches in respect of these Regulations and obligations. No notification of any breach of any environmental regulation has been received regarding any of the Company's exploration activities during the year.

LCK commissioned an independent study by inGauge Energy that examined and confirmed the suitability of the Leigh Creek site for carbon capture and storage (CCS). As a result, we are confident we can reach our target of carbon neutrality through a combination of the usage of $CO_2$ and sequestration. The urea production process will use approximately 75% of the $CO_2$ generated at site, and the balance of $CO_2$ can be dealt with by CCS. Further information regarding the Company's management of Climate Change risk can be seen in the Summary of Major Risk Groups table below.

## RISK MANAGEMENT

The Company manages risks in accordance with its risk management policy with the objective of ensuring risks inherent in its activities are identified, measured and then managed to an acceptable level. The Executive Leadership Team perform risk assessments on a regular basis, and a summary is reported to the Audit and Risk Committee.

COVID-19 LCK responded to the COVID-19 pandemic in line with its focus on the safety and welfare of its employees and their families, together with that of contractors, communities where we operate. The COVID-19 pandemic is not considered as being among the Company's key corporate risks. However, it has affected the business indirectly through the impact on supply chains and restrictions on travel.

A summary of other key risks is contained in the below table.

| Risk | Description |
|---|---|
| **Regulatory** | Leigh Creek Energy operates in a highly regulated environment and complies with regulatory requirements. There is a risk that regulatory approvals are withheld, take longer than expected, or unforeseen circumstances arise where requirements may not be adequately addressed in the eyes of the regulator, and costs may be incurred to remediate non-compliance and/or obtain approval(s). Changes in personnel, Government, monetary, taxation and other laws in Australia or internationally may impact the Company's operations. |
| **Exploration** | Exploration is a speculative activity with associated risk to discovery. LCK utilises established methodologies and experienced personnel to evaluate prospects and manage the risk associated with exploration. The Company also ensures all major exploration decisions are subjected to assurance reviews, including external experts and contractors where appropriate. |
| **Reserves** | Oil and gas reserves are expressions of judgement based on knowledge, experience, and industry practice. These estimates may alter significantly or become uncertain when new information becomes available and/or there are material changes of circumstances that may result in LCK altering its plans, which could positively or negatively affect LCK's operations. Reserves and Contingent Resources estimation is consistent with the definitions and guidelines in the Society of Petroleum Engineers (SPE) 2018 Petroleum Resources Management System (PRMS). The assessment of Reserves and Contingent Resources may also undergo independent review. |
| **Operating** | There are several risks associated with operating. The occurrence of any event associated with these risks could result in substantial losses to the Company that may have a material adverse effect on the business of LCK, results of operations and financial condition. To the extent that it is reasonable, LCK mitigates the risk of loss associated with operating events through insurance contracts. LCK operates with a comprehensive range of operating and risk management plans to ensure safe and sustainable operations. |
| **Funding** | LCK must undertake significant capital expenditures to conduct its development appraisal and exploration activities. Limitations on the access to adequate funding could have a material adverse effect on the business, results from operations, financial conditions, and prospects. LCK's business and development of our large-scale project rely on access to debt and equity funding. There can be no assurance that sufficient debt or equity funding will be available on acceptable terms or at all. LCK endeavours to ensure the best source of funding is obtained to maximise shareholder value, having regard to prudent risk management supported by economic and commercial analysis of all business undertakings |

| Risk | Description |
|---|---|
| **Community and Social** | LCK operates in regions with residential, environmental, cultural, and economic significance to local and national communities. Loss of confidence in the Company, in its ability to operate responsibly or opposition to its activities generally within these communities may adversely affect community sentiment towards LCK and impact its capacity to execute its plans. LCK conducts a community engagement programme at multiple levels and forms. The purpose of this programme is to build and maintain awareness, understanding and support of the Company, its operations and plans in the local regions. It serves to build long term positive relationships with local communities together with awareness of the economic benefits to the community and the nation generally.<br><br>Elements of the program include:<br><br>- sponsorship and donations made to local community organisations.<br>- engagement and briefing with local office holders and elected representatives of local, state, and federal government.<br>- engagement with local community groups via town hall meetings and community information sessions, and<br>- engagement with local media, including the use of social media |

| **Risk** | **Description** |
| --- | --- |
| **Climate Change** | LCK recognises that direct physical and indirect non-physical impacts of climate change may affect our operations and the markets into which we operate and intend to operate. Potential risks include those arising from increased severe weather events; longer-term changes in climate patterns; and increased frequency and severity, of bushfires.<br><br>Indirect risks arise from a variety of legal, policy, technology, and market responses to the challenges that climate change poses as society transitions to a lower emissions future. These risks may impact the demand for and competitiveness of the Company's products and the Company's appeal as an investment, employer, and community member.<br><br>Assessment and response to these risks is undertaken on three fronts:<br><br>1) understanding, managing, and mitigating the risks presented by direct physical impacts<br><br>2) understanding, managing, and mitigating the impact of climate change and emissions policy on the demand for the Company's products ("market risk")<br><br>3) identification of means by which the Company can reduce its direct emissions and lessen its overall emissions impact.<br><br>In respect of market risk, the Company's integrated manufacturing investment strategy to produce urea from its gas assets, means its gas assets possess a low exposure to the possibility of demand loss from climate change.<br><br>A favourable market for sale of the Company's gas reserves and resources has been confirmed through a Pre-Feasibility Study and is expected to continue given demand and supply forecasts for its chosen market.<br><br>LCK syngas production is viewed as a key element supporting society's sustainable energy transition to produce nitrogen-based fertiliser such as urea.  With forecasts showing an increasing global demand for urea over the medium to long term.<br><br>The focus of the Company's strategy on carbon neutrality via gas sequestration and capture techniques is expected to lessen the risk of possible community or regulatory demand loss for the Companies products.<br><br>The Company recently announced its plan for carbon neutrality commencing 2022 as follows:<br><br>**Year 1**: 5MW construction will be carbon neutral through a combination of renewables, purchased offsets and carbon farming programs.<br><br>**Year 2**: FEED, FID and BFS will be carbon neutral through a combination of renewables, purchased offset and carbon farming programs.<br><br>**Year 2-4**: Development, construction and production operations will enable carbon neutrality through renewables, carbon farming and initiating the carbon capture and storage processes (CCUS) programs.<br><br>**Year 4+:** Utilisation of 75% of $CO_2$ in urea production, the remainder through CCUS. |

## DIVIDENDS

The Directors do not recommend the payment of a dividend, and no amount has been paid or declared since the end of the previous financial year.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

No significant change in the state of affairs of the Group occurred during the financial year, other than as already referred to in this report.

## LIKELY DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Company continues to progress with its commercialisation plans and is in negotiation with several strategic partners.

## AFTER REPORTING DATE EVENTS

On 21 July 2021, the Company entered into a contract with Drivetrain Australia to purchase four Siemens power generators. These are long lead time items required for the commercial development of the LCUP project.

On 28 July 2021, the Board resolved to issue up to 5,000,000 employee options under the terms of the ESOP to eligible staff as part of an annual reward and recognition process. On 19 August 2021, 4,520,000 of these options were issued.

On 2 August 2021, the Company issued a formal Notice to Proceed to Daelim under its Engineering, Procurement, Construction and Commissioning Contract. Under the terms of the Contract, subsequent to the issue of this Notice, the Company is liable to pay Daelim USD 8,779,500 by 30 September 2021.

## MEETINGS OF DIRECTORS

During the financial year, the number of meetings held at which a director was eligible to attend and the number attended by each director was:

| | Board Meetings | | Audit & Risk Committee | |
|---|---|---|---|---|
| **Director** | **Meetings Held** | **Meetings attended** | **Meetings Held** | **Meetings Attended** |
| D J Peters | 13 | 13 | 5 | 5 |
| P J Staveley | 13 | 13 | - | - |
| G D English[1] | 11 | 10 | 5 | 5 |
| M K Chatfield | 13 | 13 | 5 | 5 |
| Z Wang | 13 | 13 | - | - |
| Z Xiaojiang | 13 | 13 | - | - |

(1) Mr English resigned on 22 June 2021.

## UNISSUED SHARES UNDER OPTIONS

Unissued ordinary shares of Leigh Creek Energy Limited under option at the date of this report are:

| Grant Date | Date of Expiry | Exercise Price | Number under Option |
|---|---|---|---|
| 4 October 2016 | 10 October 2021 | $0.35 | 2,000,000 |
| 4 October 2016 | 10 October 2021 | $0.45 | 2,000,000 |
| 16 July 2018 | 16 July 2022 | $0.25 | 5,790,000 |
| 18 April 2018 | 17 April 2023 | $0.35 | 5,000,000 |
| 4 July 2018 | 3 July 2022 | $0.25 | 5,000,000 |
| 1 November 2018 | 31 October 2021 | $0.20 | 1,500,000 |
| 1 November 2018 | 31 October 2021 | $0.22 | 1,500,000 |
| 1 November 2018 | 31 October 2021 | $0.24 | 1,500,000 |
| 1 November 2018 | 31 October 2021 | $0.26 | 1,500,000 |
| 17 December 2019 | 12 December 2023 | $0.23 | 7,600,000 |
| 17 March 2020 | 16 March 2023 | $0.14 | 5,494,505 |
| 17 March 2020 | 16 March 2023 | $0.18 | 5,494,505 |
| 19 August 2020 | 18 August 2024 | $0.12 | 6,650,000 |
| 4 November 2020 | 15 April 2025 | $0.00 | 799,165 |
| 15 January 2021 | 14 January 2024 | $0.23 | 9,800,000 |
| 15 January 2021 | 14 January 2024 | $0.23 | 800,000 |
| 21 June 2021 | 15 June 2026 | $0.00 | 25,615 |
| 1 July 2021 | 28 June 2026 | $0.00 | 2,000,000 |
| 19 August 2021 | 17 August 2026 | $0.00 | 4,520,000 |
| **Total** | | | **68,973,790** |

Options forfeited and expired during the period up to and including the date of this report include 800,000 and 12,423,500 options, respectively. Options granted and still on issue during the period and up to and including the date of this report to include 13,995,615, all with different expiry dates listed below. This excludes any options that were forfeited, expired, or exercised during the year and to the date of this report.

Additionally, at the Extraordinary General Meeting on the 12th of August 2021, shareholders approved the issue of 100,000,000 options attaching to the 100,000,000 placement shares issued in the $18m Evolution Capital Advisors capital raise in June 2021. Shareholders also approved the issue of 10,000,000 options to Evolution as part of their fee for acting as Lead Manager of the Placement. The Prospectus offer for the combined 110,000,000 options was made on the 31st of August 2021.

During the year ended 30 June 2021, and to the date of this report, 25,367,517 shares of Leigh Creek Energy Limited were issued on the exercise of options.

None of the options on issue entitles the holders to participate, by virtue of the options, in any dividend or share issue of the Company.

## INDEMNITIES GIVEN TO, AND INSURANCE PREMIUMS PAID FOR, OFFICERS

During the year, the company paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all Directors. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the premium paid in respect of insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer of the Group against a liability incurred as such by an officer.

## INDEMNITY OF AUDITORS

The Group has agreed to indemnify its auditors, Grant Thornton Audit Pty Ltd, to the extent permitted by law, against any claim by a third party arising from the Group's breach of its agreement. The indemnity requires the Group to meet the full amount of any such liabilities including a reasonable amount of legal costs.

## AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration for the year ended 30 June 2021 can be found on page 22 and forms part of the Directors' Report.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

# REMUNERATION REPORT – AUDITED

## 1. Principles used to determine the nature and amount of remuneration

The remuneration policy is designed to align the objectives of the Key Management Personnel with shareholder and business objectives by providing a fixed remuneration package to non-executive Directors and time-based remuneration to Executive Directors. The Board of Leigh Creek Energy believes the policy to be appropriate and effective in attracting and retaining the best Directors and Executives to manage and direct the Group and create goal congruence between Directors, Executives, and shareholders.

The Company's policy for determining the nature and amounts of emoluments of board members and other Key Management Personnel is as follows.

The Company's Constitution specifies that the total amount of remuneration of non-executive Directors shall be fixed from time to time by a general meeting. The current maximum aggregate remuneration of non-executive Directors has been set at $750,000 per annum (as approved by shareholders at an EGM 22 August 2018). Directors may apportion any amount up to this maximum amount amongst the non-executive Directors as they determine. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in performing their duties.

Non-executive Director remuneration is by way of fees and statutory superannuation contributions. Non-executive Directors do not participate in schemes designed for the remuneration of executives. However, they may receive options or bonus payments subject to shareholder approval and are not provided with retirement benefits other than salary sacrifice and statutory superannuation.

The Company's remuneration structure is based on several factors, including the experience and performance of the individual in meeting key objectives of the Company. The Board is responsible for assessing relevant employment market conditions and achieving the overall, long term objective of maximising shareholder benefits by retaining high-quality personnel.

The Board may approve the payment of cash bonuses from time to time to reward individual executive performance in achieving key objectives as considered appropriate by the Board.

The Company also has an Employee Share Option Plan, approved by shareholders, enabling the Board to offer eligible employees options to acquire ordinary fully paid shares. Under the terms of the Plan, options to acquire ordinary fully paid shares may be offered to the Company's eligible employees at no cost unless otherwise determined by the Board per the terms and conditions of the Plan. The Plan's objective is to align the interests of employees and shareholders by providing employees of the Company with the opportunity to participate in the equity of the Company as an incentive to achieve greater success for the Company and to maximise the company's long-term performance. It can also be used as a reward for performance.

As the Company is developing an energy asset that is not yet in production, in the opinion of the Board, the Company's earnings and the consequences of the Company's performance on shareholder wealth are not related to the Company's remuneration policy.

*Voting at 2020 AGM*

Of the total valid available votes lodged, Leigh Creek Energy received 97.76% "yes" votes on its remuneration report for the 2020 financial year. The motion was carried unanimously on a show of hands as an ordinary resolution. The Company did not receive any specific feedback at the AGM on its remuneration practices.

*Use of remuneration consultants*

The Company has not engaged and sought benchmarking advice from remuneration consultants. The *Corporations Act 2001* requires companies to disclose specific details regarding the use of remuneration consultants. The mandatory disclosure requirements only apply to those advisors who provide a "remuneration recommendation" as defined in *the Corporations Act 2001*. The Remuneration Committee did not receive any remuneration recommendations during the reporting period.

## 2. Details of remuneration

Details of the nature and amount of each element of the remuneration of each Key Management Personnel (KMP) of the Group are shown in the table below:

| Directors | Year | Short term benefits | | | | Long term benefits | Post-employment benefits | Share-based payments | | Total | Performance based on % of remuneration |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Directors Fees | Salary & wages | Other | Non-monetary benefits[1] | Long service leave | Super Contributions | Shares | Options[2] | | |
| D J Peters | 2021 | - | 393,714 | - | 4,879 | 20,030 | 25,000 | - | 770,948 | 1,214,571 | 64% |
| | 2020 | - | 305,893 | - | 649 | 24,979 | 25,000 | -37,292[3] | 23,850 | 343,078 | -11% |
| P J Staveley | 2021 | - | 378,974 | - | 12,559 | 22,291 | 25,000 | - | 877,018 | 1,315,842 | 62% |
| | 2020 | - | 335,427 | - | - | 26,893 | 25,000 | -35,339[3] | 45,500 | 397,481 | -9% |
| G D English[5] | 2021 | 45,833 | - | - | - | - | 4,750 | - | 9,802 | 60,386 | - |
| | 2020 | 37,500 | - | - | - | - | 4,750 | - | 12,500 | 54,750 | - |
| M Chatfield | 2021 | 45,833 | - | - | - | - | 4,750 | - | 9,802 | 60,386 | - |
| | 2020 | 37,500 | - | - | - | - | 4,750 | - | 12,500 | 54,750 | - |
| Z Wang | 2021 | 50,188 | - | - | - | - | - | - | 9,802 | 59,990 | - |
| | 2020 | 41,063 | - | - | - | - | - | - | 12,500 | 53,563 | - |
| Z Xiaojiang | 2021 | 45,833 | - | 210,833[4] | - | - | 4,750 | - | 32,347 | 293,764 | - |
| | 2020 | 37,500 | - | 201,250[4] | - | - | 4,750 | - | 41,250 | 284,750 | - |
| Total | 2021 | 187,688 | 772,688 | 210,833 | 17,438 | 42,321 | 64,250 | - | 1,709,719 | 3,004,937 | |
| | 2020 | 153,563 | 641,320 | 201,250 | 649 | 51,872 | 64,250 | -72,631 | 148,100 | 1,188,371 | |

Notes

(1) Non-monetary benefits include benefits provided to the KMP on which Fringe Benefits tax is paid.

(2) In accordance with the Accounting Standards, remuneration includes a proportion of the fair value of the options granted or proposed during the year. The notional value of options is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not indicative of the benefit (if any) that the employee may ultimately realise should the options vest. The notional value of the options as at the issue date has been determined in accordance with the accounting policy Employee Remuneration Note 11. Options proposed for issue during the period represent fees and salary foregone by KMP in response to COVID-19 cash containment strategy and the award of STI performance hurdles.

(3) Shares were granted to D Peters and P Staveley in FY20. The remuneration was approved by shareholders on 21 November 2019 at the Annual General Meeting. Under accounting rules, the fair value of proposed shares was expensed in FY19, $105,095 and $99,592, respectively, based on the provisional grant date, with the adjusted expense at issue date recognised in FY20 ($37,292) and ($35,339).

(4) Mr Xiaojiang provided consulting services during the year.

(5) Mr English resigned as a director on 22 June 2021.

## 3. Service agreements

Remuneration and other terms of employment for the Executive Directors and other Key Management Personnel are formalised in a Service Agreement. The major provisions of the agreement relating to remuneration are set out below:

| Employee | Base salary | Term of agreement | Notice period |
|---|---|---|---|
| D J Peters | $366,750 | Ongoing | 6 months |
| P J Staveley | $419,625 | Ongoing | 6 months |

Notes
(1) Service agreements are presented as at 30 June 2021.

## 4. Share-based remuneration

Unlisted options are granted to Directors and Key Management Personnel as part of their remuneration. Most of the options are granted subject to performance criteria and are issued to the relevant directors and Key Management Personnel of the Group to increase goal congruence between executives, directors, and shareholders. All options refer to options over ordinary shares of the Company, which are exercisable on a one-for-one basis under the terms of the agreements.

Options were proposed for issue from April to July 2020, which represented fees and salary foregone by KMPs in accordance with the COVID-19 cash containment strategy and were approved by shareholders at the 2020 Annual General Meeting.

Shareholder approval was also given at the 2020 Annual General Meeting under resolutions 13 and 14 to issue zero exercise price unlisted options to D J Peters and P J Staveley, with an expiration date of 4 years from the date of issue. The number of unlisted options to be granted was determined by dividing the percentage of total fixed annual remuneration as guided by remuneration advice by the VWAP of the Company over the 30 days before 1 July 2020 of $0.087. The number of unlisted options to be issued under the STIs was calculated as 155% of the Total Fixed Remuneration (excluding superannuation) of D J Peters, $505,300, and 145% of the Total Fixed Remuneration (excluding superannuation) of P J Staveley, $540,850. These options were to vest depending on the satisfaction of relevant performance conditions during FY21. These conditions were as follows:

| Performance Condition | No. of options to be issued to the Executive Chairman – D J Peters | No. of options to be issued to the Managing Director – P J Staveley |
|---|---|---|
| Completion of studies with final recommendation for the commercial product for the Leigh Creek Urea Project | 187,356 | 428,735 |
| Awarding of Petroleum Production Licence | 187,356 | 428,735 |
| Revenue related hurdle | 187,356 | 214,367 |
| Final Investment Decision related hurdle | 187,356 | 214,367 |
| Site works related hurdle | 187,356 | 428,735 |
| Offtake agreement related hurdle | 187,356 | 428,735 |
| Project Equity funding hurdle | 2,248,275 | 1,714,942 |
| Share price performance hurdle | 2,435,633 | 2,358,068 |
| **TOTAL** | **5,808,044** | **6,216,684** |

The options subject to the share price performance conditions were initially valued using a Monte Carlo valuation of $80,376 for D J Peters and $77,816 for P J Staveley as at the 4th of November 2020. The rest of the performance conditions were valued using the closing share price at the grant date at $404,689 for D J Peters and $463,034 for P J Staveley at the 4th of November 2020.

On the 10th of June 2021, the board resolved to modify existing vesting conditions, replacing the existing performance conditions with the condition that the Engineering, Procurement, Construction, Commissioning and Finance (EPCCF) Contract with Daelim is executed by the 30th of June 2021. At the modification date, the fair value of the options initially relating to the share price performance hurdle was determined to be $250,870 for D J Peters and $242,881 for P J Staveley, using a Monte Carlo valuation. At the modification date, the fair value of the options initially relating to all other performance conditions was unchanged.

As at 30 June 2021, as the modified performance condition had been met, 5,808,044 options vested to D J Peters and 6,216,684 options vested to P J Staveley.

## 5. Other information

**Number of Options held by Key Management Personnel**

The number of options to acquire ordinary shares in the Company, held during the 2021 reporting period by each of the Group's Key Management Personnel, including their related parties, is set out below:

| Name | Balance at start of the year | Granted as remuneration | Exercised | Other changes[3] | Closing balance | Vested & exercisable at the end of the reporting period | Vested & un-exercisable at the end of the reporting period |
|---|---|---|---|---|---|---|---|
| D J Peters | 3,250,000 | 5,808,044[2] | - | (750,000) | 8,308,044 | 8,308,044 | - |
| P J Staveley | 4,500,000 | 6,898,340[1, 2] | (681,656) | (2,000,000) | 8,716,684 | 8,716,684 | - |
| G D English | 2,000,000 | 185,853[1] | (185,853) | - | 2,000,000 | 2,000,000 | - |
| M Chatfield | 2,000,000 | 185,853[1] | (185,853) | - | 2,000,000 | 2,000,000 | - |
| Z Wang | 2,000,000 | 185,853[1] | - | - | 2,185,853 | 2,185,853 | - |
| Z Xiaojiang | 2,000,000 | 613,312[1] | - | - | 2,613,312 | 2,613,312 | - |
| Total | 15,750,000 | 13,877,255 | (1,053,362) | (2,750,000) | 25,823,893 | 25,823,893 | - |

Notes:

[1] Shareholder approval was given at the 2020 Annual General Meeting to issue options for salary and fees foregone by directors as part of the COVID-19 response from April to July 2020. This resulted in the issue of 185,853 options to G D English, M Chatfield, and Z Wang, 613,312 options to Z Xiaojiang, and 681,656 options to P J Staveley.

[2] Shareholder approval was also given at the 2020 Annual General Meeting under resolutions 13 and 14 to issue zero exercise price options to D J Peters and P J Staveley. These options were to vest depending on the satisfaction of relevant performance conditions. On 10th June 2021, these conditions were modified and replaced with a different performance condition. As at 30 June 2021, this performance condition had been met, and these options had vested in full (see section 4. Share-based remuneration above for a detailed explanation of these performance conditions).

[3] Options lapsed during the period.

*Number of Shares held directly and indirectly by Key Management Personnel*

| Name | Balance at start of the year | Granted as remuneration | Received on exercise | Other changes[1] | Held at the end of the reporting period |
|---|---|---|---|---|---|
| D J Peters[3] | 7,531,591 | - | - | 35,335 | 7,566,926 |
| P J Staveley | 1,482,985 | - | 681,656 | - | 2,164,641 |
| G D English | - | - | 185,853 | (185,853)[4] | - |
| M Chatfield | 1,661,967 | - | 185,853 | - | 1,847,820 |
| Z Wang | - | - | - | - | - |
| Z Xiaojiang[2] | 29,501,347 | - | - | - | 29,501,347 |
| Total | 40,177,890 | - | 1,053,362 | (150,518) | 41,080,734 |

Note:

(1) Other changes include purchases or sales during the financial year.
(2) Z Xiaojiang has an interest in 29,501,347 shares held by Crown Ascent Development Limited due to having a 25% interest in Crown.
(3) D Peters' close family members hold a further 7,566,926 shares. Mr Peters does not have any interest in these shares.
(4) G English resigned as a director on 22 June 2021. This movement represents shares held at resignation.

**Loans to Key Management Personnel**

At balance date, the Group does not have any outstanding receivables relating to loans to employees or Key Management Personnel.

**Related party transactions**

During the reporting period:

Piper Alderman lawyers were paid $231,314 (2020: $151,912) for legal services rendered to the Group. There was $177,628 due for payment at the end of the reporting period. Greg English is a partner at Piper Alderman lawyers and was a Non-Executive Director of the Company during the year.

Investment Company Services Pty Ltd was paid $550 (2020: $29,067) to provide investor relations services to the Group. There was no outstanding balance at the end of the reporting period. The party is related to Mr Peters, Executive Chairman of the Company.

Zheng Xiaojiang provided consulting services for $210,833 and was reimbursed for travel expenses of $54,833 during the year totalling $265,666 (2020: $201,250). There was $19,167 due for payment at the end of the reporting period. Mr Xiaojiang is a Non-Executive Director of Leigh Creek Energy.

In 2020, a binding heads-of-agreement was entered into between China New Energy and the Company, for the Company to commence ISG in China with a focus on hydrogen and fertiliser production. Mr Zhe Wang is an employee at China New Energy and is a Non-Executive Director of the Company. No amount has been received or incurred in relation to this agreement.

**END OF AUDITED REMUNERATION REPORT**

## AUDITOR'S INDEPENDENCE

Grant Thornton Audit Pty Ltd continues in office in accordance with Section 327 of the *Corporations Act 2001*.

The auditor has not been engaged during the year for any non-audit services which may have impaired the auditor's independence. The auditor's independence declaration for the year ended 30 June 2021 has been received and is included in this report.

Signed in accordance with a resolution of the Board.

D J Peters
Executive Chairman

Dated at Adelaide, South Australia this 28th day of September 2021

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors (the Board) of Leigh Creek Energy Limited (the Company) is committed to achieving and demonstrating the highest standard of Corporate Governance.

The Board guides the affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board has responsibility for the overall Corporate Governance of the Company including its strategic direction, establishment of goals for its management and monitoring the achievement of those goals.

The individual Directors recognise that their primary responsibility is to the owners of the Company, its shareholders, while simultaneously having regard for the interests of all stakeholders and the broader community.

The statement outlines the Company's Corporate Governance Practices in place during the financial year. The Company's statement is made based on the ASX Corporate Governance Councils Corporate Governance Principles and Recommendations (4th Edition).

Although the ASX Corporate Governance Council's Recommendations are not mandatory, under listing rule 4.10.3, companies are required to provide a statement disclosing the extent to which they have followed the recommendations in the reporting period, identifying any principles which have not been followed with reasons for not having done so.

The statement of revised principles and the Company's compliance with each principle are set out in the Company's website www.lcke.com.au

## DIRECTORS' DECLARATION

1. In the opinion of the Directors of Leigh Creek Energy Limited:

   a. The consolidated financial statements and notes of the Company are in accordance with the *Corporations Act 2001*, including:

      i. Giving a true and fair view of the financial position as at 30 June 2021 and of the performance of the Group for the year ended on that date; and

      ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

   b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2021.

3. Note 1 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the Board of Directors.

D J Peters
Executive Chairman

Dated at Adelaide, South Australia this 28th day of September 2021

Level 3, 170 Frome Street
Adelaide SA 5000

Correspondence to:
GPO Box 1270
Adelaide SA 5001

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# Auditor's Independence Declaration

## To the Directors of Leigh Creek Energy Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Leigh Creek Energy Limited for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 28 September 2021

**Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2021**

| | Notes | 2021 | 2020 |
|---|---|---|---|
| | | $ | $ |
| Other income | 2a | 50,501 | 50,000 |
| Other expenses | 2b | (4,330,959) | (3,288,751) |
| Depreciation of property, plant, and equipment | | (179,732) | (77,677) |
| Employee benefits expense | 11 | (4,397,128) | (3,711,437) |
| **Operating loss** | | **(8,857,318)** | **(7,027,865)** |
| Finance income | 3a | 2,559 | 25,490 |
| Finance costs | 3b | (4,719,414) | (152,566) |
| **Loss before income tax** | | **(13,574,173)** | **(7,154,941)** |
| Income tax | 4 | - | - |
| **Loss for the year after income tax** | | **(13,574,173)** | **(7,154,941)** |
| Total other comprehensive income | | - | - |
| **Total comprehensive (loss) for the year** | | **(13,574,173)** | **(7,154,941)** |
| | | | |
| **Earnings per share** | | **Cents** | **Cents** |
| Basic (cents per share) | 22 | (2.06) | (1.26) |
| Diluted (cents per share) | 22 | (2.06) | (1.26) |

The accompanying notes form part of these financial statements.

## Consolidated Statement of Financial Position for the year ended 30 June 2021

| | Notes | 2021<br>$ | 2020<br>$ |
|---|---|---|---|
| **Assets** | | | |
| **Current** | | | |
| Cash and cash equivalents | 5 | 22,812,361 | 6,814,387 |
| Trade and other receivables | 6 | 257,204 | 557,497 |
| Prepayments | | 200,195 | 125,211 |
| **Total Current Assets** | | **23,269,760** | **7,497,095** |
| **Non-Current** | | | |
| Other assets | 5 | 565,339 | 564,804 |
| Property, plant, and equipment | 7 | 412,975 | 404,447 |
| Exploration and evaluation expenditure | 8 | 30,823,397 | 27,221,061 |
| Right-of-use Asset | 16 | 111,350 | 245,043 |
| **Total Non-Current Assets** | | **31,913,061** | **28,435,355** |
| **Total Assets** | | **55,182,821** | **35,932,450** |
| **Liabilities** | | | |
| **Current** | | | |
| Trade and other payables | 9 | 1,233,712 | 477,000 |
| Borrowings | 10 | 97,324 | 450,848 |
| Employee entitlements | 11 | 559,255 | 389,521 |
| Lease Liabilities | 16 | 127,517 | 147,864 |
| Other Financial Liabilities | 24 | 1,757,143 | - |
| **Total Current Liabilities** | | **3,774,951** | **1,465,233** |
| **Non-Current** | | | |
| Employee entitlements | 11 | 105,135 | 86,758 |
| Borrowings | 10 | - | 102,350 |
| Lease Liabilities | 16 | - | 121,006 |
| **Total Non-Current Liabilities** | | **105,135** | **310,114** |
| **Total Liabilities** | | **3,880,086** | **1,775,347** |
| **Net Assets** | | **51,302,735** | **34,157,103** |

| | Notes | 2021 | 2020 |
|---|---|---|---|
| | | $ | $ |
| Share capital | 12 | 107,607,468 | 81,094,167 |
| Share option reserve | 13 | 8,260,419 | 4,053,915 |
| Retained losses | | (64,565,152) | (50,990,979) |
| **Total Equity** | | **51,302,735** | **34,157,103** |

The accompanying notes form part of these financial statements.

## Consolidated Statement of changes in equity for the year ended 30 June 2021

| | SHARE CAPITAL $ | RETAINED LOSSES $ | SHARE OPTION RESERVE $ | TOTAL EQUITY $ |
|---|---|---|---|---|
| **BALANCE 1 July 2020** | **81,094,167** | **(50,990,979)** | **4,053,915** | **34,157,103** |
| ***Total comprehensive income*** | | | | |
| Total profit or (loss) | - | (13,574,173) | - | (13,574,173) |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income** | - | **(13,574,173)** | - | **(13,574,173)** |
| ***Transactions with members in their capacity as owners:*** | | | | |
| Issued of share capital (net of costs) | 26,531,301 | - | - | **26,531,301** |
| Issue of share-based payment options | - | - | 4,206,504 | **4,206,504** |
| **Total transactions with owners** | **26,531,301** | - | **4,206,504** | **30,719,805** |
| **BALANCE AT 30 June 2021** | **107,607,468** | **(64,565,152)** | **8,260,419** | **51,302,735** |

| | SHARE CAPITAL $ | RETAINED LOSSES $ | SHARE OPTION RESERVE $ | TOTAL EQUITY $ |
|---|---|---|---|---|
| **BALANCE 1 July 2019** | **71,000,050** | **(43,836,038)** | **2,581,728** | **29,745,740** |
| ***Total comprehensive income*** | | | | |
| Total profit or (loss) | - | (7,154,941) | - | **(7,154,941)** |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income** | - | **(7,154,941)** | - | **(7,154,941)** |
| ***Transactions with members in their capacity as owners:*** | | | | |
| Issued of share capital (net of costs) | 10,094,117 | - | - | **10,094,117** |
| Issue of share-based payment options | - | - | 1,472,187 | **1,472,187** |
| **Total transactions with owners** | **10,094,117** | - | **1,472,187** | **11,566,304** |
| **BALANCE AT 30 June 2020** | **81,094,167** | **(50,990,979)** | **4,053,915** | **34,157,103** |

The accompanying notes form part of these financial statements.

**Consolidated Statement of Cash Flows for the year ended 30 June 2021**

| | Notes | 2021<br>$ | 2020<br>$ |
|---|---|---|---|
| **Cash flows from Operating Activities** | | | |
| Sundry income received | | 501 | - |
| Cash flow boost stimulus grant income | | 50,000 | 50,000 |
| Interest received | | 2,559 | 25,490 |
| Payments to suppliers and employees | | (4,666,219) | (6,274,061) |
| Changes in long-term bank deposits | | (535) | 198,636 |
| **Net Cash (used in) Operating Activities** | 18(b) | **(4,613,694)** | **(5,999,935)** |
| **Cash flows from Investing Activities** | | | |
| Purchase of property, plant & equipment | | (110,526) | (47,448) |
| R&D rebates received | | 518,432 | 6,904,855 |
| Capitalised exploration costs | | (3,546,378) | (2,712,560) |
| **Net Cash (used in) Investing Activities** | | **(3,138,472)** | **4,144,847** |
| **Cash flows from Financing Activities** | | | |
| Issue of shares | | 24,951,735 | 10,386,283 |
| Proceeds from exercise of options | | 840,000 | - |
| Share issue transaction costs | | (1,412,922) | (424,222) |
| Proceeds from borrowings | | 145,916 | 553,198 |
| (Repayments) of borrowings/borrowing costs | | (774,589) | (4,139,728) |
| **Net Cash from Financing Activities** | | **23,750,140** | **6,375,531** |
| Net change in cash and cash equivalents | | 15,997,974 | 4,520,443 |
| Cash and cash equivalents, beginning of year | | 6,814,387 | 2,293,944 |
| **Cash and Cash Equivalents, end of year** | 18(a) | **22,812,361** | **6,814,387** |

The accompanying notes form part of these financial statements.

# 1. Summary of significant accounting policies

The principal activity of the Group was pursuing the development of its Leigh Creek Urea Project.

## a. General information and statement of compliance

The consolidated general purpose financial statements have been prepared under the Corporations Act 2001, Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Leigh Creek Energy is a for-profit entity for the purposes of preparing financial statements. The financial report has been presented in Australian dollars.

Leigh Creek Energy Limited is the Group's Ultimate Parent Company. Leigh Creek Energy Limited is a listed public company incorporated and domiciled in Australia. The address of the registered office and its principal place of business is Level 11, 19 Grenfell Street, Adelaide SA 5000.

The consolidated financial statements for the year ended 30 June 2021 were approved and authorised for issue by the Board of Directors on 28th September 2021.

## b. Overall considerations

The consolidated financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets, and financial liabilities for which the fair value basis of accounting has been applied.

## c. Basis of consolidation

The Group financial statements consolidate those of the Parent Company and its subsidiaries as of 30 June 2021. The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and can affect those returns through its power over the subsidiary. All subsidiaries have a report date of 30 June. The controlled entities are disclosed in Note 19 to the financial statements.

All inter-company balances transactions and balances between Group companies are eliminated on consolidation. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

## d. Changes in accounting policy

The financial statements have been prepared under the same accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2020. The accounting policies included in the Group's previous annual financial statements for the year ended 30 June 2020 are the relevant policies for comparatives.

There were no new standards adopted as at 1 July 2020.

## e. Impairment of Assets

At each reporting date, the Group reviews the carrying values of its assets to determine whether there is any indication that assets have been impaired. If such an indication exists, the asset's recoverable amount, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss. Where it is impossible to estimate an individual asset's recoverable amount, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

## f. Segment reporting

The Board has considered the requirements of AASB 8 Operating Segments and the internal reports reviewed by the chief operating decision-maker (the Board) in allocating resources and has concluded that there are no separately identifiable segments.

## g. Goods and Services Tax (GST)

Revenues, expenses, and assets are recognised net of GST unless the GST incurred is not recoverable from the Australian Tax Office. In these circumstances, GST is recognised as part of the cost of acquiring the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST. The net amount of GST recoverable from the Australian Tax Office is included with other receivables in the statement of financial position.

Cash flows are presented in the cash flow statement on a GST inclusive basis.

## h. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

## i. Significant management judgement in applying accounting policies

When preparing the financial statements, management undertakes several judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. The areas involving significant estimates and assumptions are listed below:

- Exploration and Evaluation Expenditure – Note 8
  - *Exploration and evaluation costs have been capitalised on the basis that the Group will commence commercial production in the future. From that time, the costs will be amortised in proportion to the depletion of the resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes, and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.*
  - *Research and development tax incentive income is recognised at fair value when there is reasonable assurance that the income will be received. Income from the R&D tax incentive is recognised against the capitalised exploration expenditure. The expected future R&D tax incentive for qualifying R&D expenditure for the current financial year has been accrued and is recognised against the capitalised exploration expenditure on the statement of financial position. It has been established that the conditions of this future R&D incentive have been met and that the expected amount of the incentive can be reliably measured*
  - *Judgement is required to ensure that the carrying value of Exploration and Evaluation assets does not exceed the recoverable amount. Factors considered in this judgement are:*
    *a) the period for which the entity has the right to explore in the specific area has expired or will expire in the near future;*

*b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;*
*c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources, and the entity has decided to discontinue such activities;*
*d) sufficient data exists to indicate that, although development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.*
*Management has judged that, given these factors, the balance of Exploration and Evaluation assets is not impaired.*

- Share-based payments – Note 13
  *The valuation for accounting purposes of Share-Based Payments relies on several factors that cannot be accurately measured. These include:*
  *a) the volatility of the LCK share value;*
  *b) the probability that vesting conditions/milestones will be met;*
  *c) the probability that the employee will remain employed with the Company until the expiry date of the options;*
  *d) the probability that the employee will exercise their options.*
  *The Board retains the final judgement about the vesting of the options. Management has assessed each of these factors and made judgements on what factors are used for the calculation.*
- Coronavirus (COVID-19) Pandemic
  *Judgement has been exercised in considering the impacts that the COVID-19 pandemic has had, or may have, on the Group's operation based on available information. Other than addressed in specific notes, there does not appear to be any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions that may impact the Group unfavourably as at the reporting date or subsequently because of the COVID-19 pandemic.*

## j. Going Concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. In 2021, the Group incurred a loss of $13.6 million, and this brought accumulated losses to $64.6 million. As at 30 June 2021, the Group’s current assets exceeded its current liabilities by $19.5 million. However, the Group had negative cash operating and investing cashflows of $7.8 million. The Group had net assets of $51.3 million.

The financial report has been prepared on a going concern basis on the expectation that the Group can raise additional debt or equity as required. The Directors are aware that additional debt or equity will be required within 12 months to continue as a going concern. The Group’s ability to raise equity will rely on investor confidence in the development of the Leigh Creek Urea Project.

The Directors note that the matters outlined above indicate a material uncertainty, which may cast significant doubt on the ability of the Group to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. At the date of this report, the Directors believe that the Group has adequate resources to continue to and develop the Group’s areas of interest and will ensure the Company has sufficient funds to meet its obligations. Subject to market conditions, the Directors believe there are reasonable grounds to conclude that the Company will be able to raise funds by way of debt and/or equity to fund anticipated activities and meet financial obligations. For the reasons outlined above, the Board has prepared the Financial Report on a going concern basis.

## 2. Other income and expenses

**Accounting policy – income and expenses recognition**

Other income is recognised on an accruals basis when the right to receive payment is established.

Other expenses represent costs incurred for the administration of the business. Costs relating to the project have been capitalised to Exploration and Evaluation expenditure (as shown in Note 8).

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| **a) Other income** | | |
| Cash flow boost stimulus grant income | 50,000 | 50,000 |
| Disposal of fixed assets | 501 | - |
| **Total other income** | **50,501** | **50,000** |
| | | |
| **b) Other expenses** | | |
| Accounting and audit | 119,682 | 158,578 |
| Communications costs | 35,912 | 47,149 |
| Corporate advisory | 453,787 | 822,345 |
| Software & other | 95,578 | 79,398 |
| Consulting and legal expense | 478,311 | 565,814 |
| Share-based payments to consultants and financiers | 2,095,874 | 550,954 |
| Insurance | 171,798 | 132,301 |
| Investor relations | 254,909 | 101,846 |
| Listing & registry fees | 231,968 | 175,890 |
| Occupancy expense | 25,679 | 186,181 |
| Printing and office supplies | 47,903 | 38,565 |
| Travel and accommodation | 78,198 | 239,466 |
| Other expenses | 241,360 | 190,264 |
| **Total other expenses** | **4,330,959** | **3,288,751** |

## 3. Finance Income and Finance Costs

**Accounting policy – Finance income and finance costs**

Finance income includes interest revenue recognised on an accruals basis taking into account the interest rates applicable. It is recognised at the time the right to receive payment is established.

Finance costs include interest paid and amortised borrowing costs from financing arrangements. Costs incurred in relation to the arrangement are amortised using the effective interest method over the life of the loan.

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| **a) Finance income** | | |
| Interest earned | 2,559 | 25,490 |
| **Total finance income** | **2,559** | **25,490** |
| | | |
| **b) Finance costs** | | |
| Interest paid on lease liabilities | 8,866 | 1,850 |
| Amortised borrowing costs | 22,580 | 150,716 |
| Energy Exploration Capital Partners (EECP) Funding[1] | 4,687,968 | - |
| **Total finance costs** | **4,719,414** | **152,566** |

(1) Includes $4,687,968 for the fair value measurement of equity issued or owing to Energy Exploration Capital Partners for payment of various fees and consideration for the receipt of $6,981,735 in funding throughout the year (see note 24).

## 4. Income Tax

**Accounting policy – income taxes**

Tax expense recognised in profit or loss comprises deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income taxes are calculated using the balance sheet liability method.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income. This probability is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

**Tax consolidation**

Under Australian taxation law, Leigh Creek Energy Limited and its wholly-owned Australian subsidiaries are a tax consolidated group.

| | 2021 $ | 2020 $ |
|---|---|---|
| **a) Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Loss before income tax | (13,574,173) | (7,154,941) |
| Prima facie tax (benefit) on loss before income tax at 26.0% (2020: 27.5%) | (3,529,285) | (1,967,609) |
| Permanent differences: | | |
| Entertainment non-deductible | 9,409 | 16,603 |
| Share-based payments | 1,093,691 | 404,851 |
| Fair value adjustments | 1,218,872 | - |
| Other non-deductible | - | 90,423 |
| Movement in unrecognised tax assets and liabilities | (1,162,608) | (1,948,994) |
| Tax-loss not recognisable | 2,388,434 | 3,404,727 |
| Under/(Over) provided in prior year | (18,513) | - |
| Aggregate income tax expense | - | - |
| **b) Tax losses** | | |
| Unused tax losses for which no deferred tax asset has been recognised | | |
| Revenue losses | 20,446,663 | 19,119,630 |
| Capital losses | 192,254 | 192,254 |

The carried forward tax losses can only be utilised in the future when taxable income is being generated, if the continuity of ownership test is passed, or failing that, the same business test is passed.

## 5. Cash Assets

**Accounting policy – Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less but exclude any cash held in deposit. Cash held in deposit is not available for use by the Group and therefore is not considered highly liquid.

Cash and cash equivalents

| | 2021 $ | 2020 $ |
|---|---|---|
| Bank balances | 22,797,317 | 6,799,387 |
| Term deposits[1] | 15,044 | 15,000 |
| **Total Current cash and cash equivalents** | **22,812,361** | **6,814,387** |
| Other assets[2] | 565,339 | 564,804 |
| **Total Non-Current other assets** | **565,339** | **564,804** |

(1) Term deposits comprise cash balances with an original maturity of less than three months.

(2) The Group has $495,470 in other assets held at local banks due to environmental monitoring and rehabilitation requirements under the Petroleum and Geothermal Energy Act 2000 relating to its Leigh Creek Urea Project. The Group also has $69,869 in other assets held under its lease contract as lessee to its corporate office in Adelaide. These reserves are not available to finance the Group's day-to-day operations and, therefore, have been excluded from cash and cash equivalents for the statement of cash flows. It has been disclosed as a non-current asset.



## 6. Trade and other receivables

**Accounting policy – Trade and other receivables**

Trade and other receivables are recognised initially at fair value. At the balance date, no receivables were outstanding or impaired.

| | 2021<br>$ | 2020<br>$ |
|---|---:|---:|
| GST recoverable | 102,231 | 57,608 |
| R&D tax incentive receivable | 153,017 | 493,096 |
| Other debtors | 1,956 | 6,793 |
| **Total Trade and other receivables** | **257,204** | **557,497** |

## 7. Property, Plant and Equipment

**Accounting policy – Property, plant, and equipment**

Each class of property, plant and equipment is carried at cost, where applicable, less any accumulated depreciation and impairment losses.

*i) Plant and equipment*

Plant and equipment are shown at historical cost less accumulated depreciation and accumulated impairment. Cost includes expenditure that is directly attributable to the acquisition of the assets.

The carrying amount of plant and equipment is reviewed annually to ensure it is not more than the recoverable amount from these assets. The recoverable amount is assessed based on the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

*ii) Depreciation*

Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

- Plant and equipment 5-33%
- Office equipment 10-50%
- Motor vehicles 15%
- Leasehold improvement 45%

The assets residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date. Gains and losses on disposal of property, plant, and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets (including impairment provision). They are recognised in profit or loss with Other Income or Other Expenses.

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| **Cost** | | |
| Balance at 1 July 2020 | 875,730 | 789,009 |
| Additions | 110,526 | 86,721 |
| Disposals | - | - |
| **Balance at 30 June 2021** | **986,256** | **875,730** |
| **Accumulated depreciation & impairment** | | |
| Balance at 1 July 2020 | 471,283 | 376,310 |
| Depreciation | 101,998 | 94,973 |
| Disposals | - | - |
| **Balance at 30 June 2021** | **573,281** | **471,283** |
| **Carrying amounts** | | |
| At 1 July 2020 | 404,447 | 412,699 |
| **At 30 June 2021** | **412,975** | **404,447** |

## 8. Exploration and Evaluation Expenditure

**Accounting policy – Exploration and evaluation expenditure**

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that the right of tenure is current, and those costs are expected to be recouped through the successful development of the area (or by its sale). These costs are also carried forward where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, and operations concerning the area are continuing.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area at the rate of depletion of the economically recoverable reserves.

Accumulated costs concerning an abandoned area are written off in full against profit in the period in which the decision to abandon the area is made.

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| Balance at opening | 27,221,061 | 25,025,917 |
| Licence fees | 31,088 | 28,220 |
| Costs capitalised for Joint Operation (Note 14) | 243,504 | 255,643 |
| Costs capitalised for LCUP | 3,506,097 | 2,428,698 |
| Less R&D tax concession rebates | (178,353) | (517,417) |
| **Total exploration and evaluation expenditure** | **30,823,397** | **27,221,061** |

The Company applied for R&D Tax Incentives through AusIndustry for eligible research expenditure incurred during 2020/21 for the Leigh Creek Urea Project.

## 9. Trade and Other Payables

Trade and other payables consist of the following:

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| Trade payables | 866,685 | 236,589 |
| Other payables | 56,670 | 47,701 |
| Accruals | 310,357 | 192,710 |
| **Total Trade and other payables** | **1,233,712** | **477,000** |

## 10. Borrowings

**Accounting policy – Borrowings**

Borrowings are recognised initially at fair value, less attributable transaction costs.

After initial recognition, borrowings and loans are stated at amortised cost. Any difference between cost and redemption value is recognised in the profit or loss over the loan period on an effective-interest basis. Loans with a determinable payment due less than twelve months from reporting date are classified as current liabilities. Transaction and finance costs include ancillary costs incurred in the arrangement of loans, interest payable and facility line fees payable on the loan.

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| **Current** | | |
| Loan – Motor Vehicle and Insurance Premium Funding | 97,324 | 90,848 |
| R&D working capital facility | - | 360,000 |
| **Total current borrowings** | **97,324** | **450,848** |
| **Non-current** | | |
| Loan – Motor Vehicle and Insurance Premium Funding | - | 102,350 |
| **Total borrowings** | **97,324** | **553,198** |
| | | |
| **R&D working capital facility** | | |
| R&D working capital facility – available | - | 750,000 |
| R&D working capital facility – undrawn | - | (390,000) |
| **R&D working capital facility – drawn** | - | **360,000** |

The Company had a limited working capital facility with the Commonwealth Bank of Australia (CBA), which was limited to accessing qualifying refundable R&D tax concessions in advance. $360,000 was drawn under the facility as of 30 June 2020, subsequently repaid and closed in October 2020.

## 11. Employee Remuneration

### EMPLOYEE BENEFITS

**Accounting policy – Employee benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the reporting date. These benefits include wages, salaries, and annual leave, and long service leave. Where these benefits are expected to be settled within 12 months of the reporting date, they are measured at the amounts expected to be paid when the liabilities are settled, and the provision has been recognised at the undiscounted amount expected to be paid.

Long service leave payable later than one year has been measured at the present value of the estimated future cash outflows to be made for those benefits, discounted using high-quality corporate bonds. In relation to employee benefits arising for employees directly involved in the exploration project, these indirect costs have been capitalised to the project.

### EMPLOYEE BENEFITS EXPENSE

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| Wages, salaries (inc. on-costs) | 1,863,667 | 2,390,182 |
| Superannuation | 234,720 | 236,472 |
| Share-based payments | 2,110,630 | 921,233 |
| Employee provisions[1] | 188,111 | 163,550 |
| **Total employee benefit expense** | **4,397,128** | **3,711,437** |

(1) This is to recognise a provision for long service leave and annual leave.

Under the Company's Accounting for Exploration policy, labour costs relating to the LCUP are capitalised. The total staff cost was $6,138,063 (2020: $4,714,769).

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| Liability for annual leave | 514,247 | 389,521 |
| Liability for long service leave – current | 45,008 | - |
| Liability for long service leave – non-current | 105,135 | 86,758 |
| **Total employee benefit liability** | **664,390** | **476,279** |

## 12. Issued Capital

**Accounting policy – Issued capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

### ORDINARY SHARES

Ordinary shares participate in dividends and the proceeds on winding up the parent entity in proportion to the number of shares held. At the shareholders' meeting, each ordinary share is entitled to one vote when a poll is called. Otherwise, each shareholder has one vote on a show of hands. All issued shares are fully paid. All unissued shares are ordinary shares of the Company.

| | 2021 $ | 2020 $ |
|---|---|---|
| Total issued capital - Ordinary shares 813,482,798 (2020: 654,662,412) | 107,607,468 | 81,094,167 |

Additional shares were issued during the financial year relating to capital raising activities listed below.

## DETAILED TABLE OF CAPITAL ISSUED DURING THE YEAR

| Type of share issue | Date of issue | No' of ordinary shares on issue | Issue price $ | Share capital $ |
|---|---|---|---|---|
| Opening balance 1 July 2020 | | 654,662,412 | | 85,448,416 |
| Options exercise | 1/07/2020 | 546,234 | - | - |
| Options exercise | 3/07/2020 | 312,075 | - | - |
| Options exercise | 21/07/2020 | 241,851 | - | - |
| Options exercise | 3/08/2020 | 813,643 | - | - |
| Options exercise | 13/08/2020 | 107,306 | - | - |
| Options exercise | 31/08/2020 | 588,606 | - | - |
| Options exercise | 8/09/2020 | 226,203 | - | - |
| Options exercise | 16/09/2020 | 53,548 | - | - |
| Options exercise | 19/11/2020 | 483,332 | 0.12 | 58,000 |
| Options exercise | 19/11/2020 | 144,839 | - | - |
| Capital raise – EECP | 6/01/2021 | 10,779,851 | 0.17 | 1,832,560 |
| Options exercise | 8/01/2021 | 5,000,000 | 0.114 | 570,000 |
| Consultancy fees | 29/01/2021 | 727,272 | 0.165 | 120,000 |
| Consultancy fees | 30/03/2021 | 975,596 | 0.144 | 140,000 |
| Options exercise | 4/05/2021 | 1,033,334 | 0.12 | 124,000 |
| Options exercise | 4/05/2021 | 185,853 | - | - |
| Capital raise – January call - EECP | 7/05/2021 | 35,000,000 | - | 8,050,000 |
| Options exercise | 17/05/2021 | 681,656 | - | - |
| Options exercise | 16/06/2021 | 733,334 | 0.12 | 88,000 |
| Options exercise | 22/06/2021 | 185,853 | - | - |
| Capital raise – Evolution Capital | 23/06/2021 | 100,000,000 | 0.18 | 18,000,000 |
| **Issued capital** | | **813,482,798** | | **114,430,976** |

## UNLISTED OPTIONS

At 30 June 2021, unissued shares of the Group under option are:

| Expiry date | Exercise price | Number of shares on exercise |
|---|---|---|
| 10-October-2021 | $0.350 | 2,000,000 |
| 10-October-2021 | $0.450 | 2,000,000 |
| 16-July-2022 | $0.251 | 5,790,000 |
| 17-April-2023 | $0.350 | 5,000,000 |
| 3-July-2022 | $0.246 | 5,000,000 |
| 31-October-2021 | $0.200 | 1,500,000 |
| 31-October-2021 | $0.220 | 1,500,000 |
| 31-October-2021 | $0.240 | 1,500,000 |
| 31-October-2021 | $0.260 | 1,500,000 |
| 12-December-2023 | $0.228 | 8,400,000 |
| 16-March-2023 | $0.137 | 5,494,505 |
| 16-March-2023 | $0.182 | 5,494,505 |
| 18-August-2024 | $0.120 | 6,650,000 |
| 15-April-2025 | $0.00 | 799,165 |
| 26-November-2024 | $0.00 | 12,024,727 |
| 13-January-2024 | $0.236 | 9,800,000 |
| 14-January-2025 | $0.230 | 800,000 |
| 15-June-2026 | $0.00 | 30,738 |
| **Total** | | **75,283,640** |

Options granted under the Employee Share Option Plan will expire on the expiry date, as they are not subject to continued employment. The one exception is under Plan 2 (see Note 13), which will expire on termination or redundancy (unless the employee is a retiring director). Other categories of holders who may be granted options are consultants of the company or financiers of the company, whose options will not be subject to employment conditions.

## LISTED OPTIONS

There are nil listed options over shares of the Group at the end of the financial year.

## CAPITAL MANAGEMENT

Management objectives when managing capital are to ensure the Group's ability to continue as a going concern. The Group manages the capital structure and adjusts it considering the forecast cash requirements of the development programme. To that end, internal capital rationing is complemented by capital raising activities as required to ensure funding for development activities is in place. The Directors are aware that additional debt or equity will be required within 12 months to continue as a going concern. The Group's ability to raise equity will rely on investor confidence in the development of the Leigh Creek Urea Project (see note 1.j.).

There are no externally imposed capital requirements.

## 13. Reserves

### ACCOUNTING POLICY - RESERVES

The share option reserve is used to recognise the fair value of options granted to employees, consultants and financiers but not exercised. Upon exercise of the options, the proceeds are allocated to share capital.

| | 2021 $ | 2020 $ |
|---|---|---|
| Share option reserve | 8,260,419 | 4,053,915 |
| **Total reserves** | **8,260,419** | **4,053,915** |

A breakdown of the share option reserve is as follows:

| | No. of Options 2021 | 2021 $ |
|---|---|---|
| Directors | 25,823,893 | 2,488,203 |
| Employees | 15,470,738 | 1,592,727 |
| Former employees | 3,655,000 | 425,278 |
| Other consultants and financiers | 30,334,009 | 3,754,211 |
| **Total** | **75,283,640** | **8,260,419** |

### SHARE BASED PAYMENTS

**Accounting policy – Share based payment plans**

The Group operates equity-settled share-based remuneration plans for its employees and some consultants. The Group's plans are not cash-settled.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values.

Where employees or consultants are rewarded using share-based payments, the fair value is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market conditions are included in assumptions about the number of options that are expected to vest. Estimates are subsequently revised if any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognised in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Grant date might occur after the employees or consultants to whom the equity instruments were granted have begun rendering services, such as grant of equity instruments to key management personnel, subject to shareholder approval. The Company estimates the grant date fair value of the equity instruments (e.g. by estimating the fair value of the equity instruments at the end of the reporting period) to recognise the services received during the period between the service commencement date and grant date. Once the grant date has been established, the Company revises the earlier estimate so that the amounts recognised for services received regarding the grant are ultimately based on the grant date fair value of the equity instruments.

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued, with any excess recorded as share premium. For Plans 5-6, 8-9, and 11-12, the fair value at issue date is calculated using the Black Scholes option pricing model that considers the share price at issue date, the exercise price, the term until expiry, and an implied volatility estimate. For plans 13 and 15, the fair value is calculated using the closing share price at the date of issue. These options are issued at a zero-exercise price. For plans 1-4, 7 and 10, the fair value at issue date is calculated using the Trinomial option pricing model that considers the share price at issue date, the exercise price, the term until expiry, and an estimate of implied volatility.

Plan 14 refers to options issued as STIs to Directors. Zero exercise price unlisted options were issued to D J Peters and P J Staveley, with an expiration date of 4 years from the issue date. The number of unlisted options to be granted was determined by dividing the percentage of total fixed annual remuneration as guided by remuneration advice by the VWAP of the Company over the 30 days before 1 July 2020 of $0.087. The number of unlisted options to be issued under the STIs was calculated as 155% of the Total Fixed Remuneration (excluding superannuation) of D J Peters, $505,300, and 145% of the Total Fixed Remuneration (excluding superannuation) of P J Staveley, $540,850. These options were to vest depending on the satisfaction of relevant performance conditions. These conditions were as follows:

| Performance Condition | No. of options to be issued to the Executive Chairman – D J Peters | No. of options to be issued to the Managing Director – P J Staveley |
|---|---|---|
| Completion of studies with final recommendation for the commercial product for the Leigh Creek Urea Project | 187,356 | 428,735 |
| Awarding of Petroleum Production Licence | 187,356 | 428,735 |
| Revenue related hurdle | 187,356 | 214,367 |
| Final Investment Decision related hurdle | 187,356 | 214,367 |
| Site works related hurdle | 187,356 | 428,735 |
| Offtake agreement related hurdle | 187,356 | 428,735 |
| Project Equity funding hurdle | 2,248,275 | 1,714,942 |
| Share price performance hurdle | 2,435,633 | 2,358,068 |
| **TOTAL** | **5,808,044** | **6,216,684** |

The options subject to the share price performance conditions were initially valued using a Monte Carlo valuation of $80,376 for D J Peters and $77,816 for P J Staveley as at the 4th of November 2020. The rest of the performance conditions were valued using the closing share price at the grant date at $404,689 for D J Peters and $463,034 for P J Staveley at the 4th of November 2020.

On the 10th of June 2021, the board resolved to modify existing vesting conditions, replacing the existing performance conditions with the condition that the Engineering, Procurement, Construction, Commissioning and

Finance (EPCCF) Contract with Daelim is executed by the 30th of June 2021. At the modification date, the fair value of the options initially relating to the share price performance hurdle was determined to be $250,870 for D J Peters and $242,881 for P J Staveley, using a Monte Carlo valuation. At the modification date, the fair value of the options initially relating to all other performance conditions was unchanged.



As at 30 June 2021, as the modified performance condition had been met, 5,808,044 options vested to D J Peters and 6,216,684 options vested to P J Staveley.

*(i) Number of options granted during the year*

| | 2021 | Weighted-average exercise price 2021 |
|---|---|---|
| Outstanding at beginning of the year | 65,039,794 | $0.26 |
| Forfeited | - | $0.00 |
| Expired | (12,423,500) | $0.38 |
| Granted | 34,005,013 | $0.10 |
| Exercised | (11,337,667) | $0.08 |
| Outstanding | 75,283,640 | $0.20 |

| | 2020 | Weighted-average exercise price 2020 |
|---|---|---|
| Outstanding at beginning of the year | 42,293,500 | $0.32 |
| Forfeited | (2,250,000) | $0.30 |
| Expired | (2,030,000) | $0.26 |
| Granted | 27,488,220 | $0.16 |
| Exercised | (461,926) | $0.30 |
| Outstanding | 65,039,794 | $0.26 |

*(ii) Valuation assumptions – employee plans*

At each balance sheet date, the Company revises its estimate of the number of options expected to become exercisable. A volatility curve was used for plans 1-12. Options vested on issue date for all plans excluding plan 14. See above for further explanation relating to the valuation of the plan 14 options.

| | Plan 1 | Plan 2 | Plan 3 |
|---|---|---|---|
| Grant date | 4 October 2016 | 22 August 2018 | 22 August 2018 |
| Number issued | 4,000,000 | 5,000,000 | 5,000,000 |
| Share price at grant date | $0.13 | $0.17 | $0.17 |
| Volatility (average) | 70% | 70% | 70% |
| Fair value at issue date | $0.03 | $0.06 | $0.08 |
| Exercise price | $0.35, $0.45 | $0.35 | $0.25 |
| Exercisable from | 10 October 2016 | 18 January 2019 | 18 January 2019 |
| Exercisable to | 10 October 2021 | 17 April 2023 | 3 July 2022 |

| | Plan 4 | Plan 5 | Plan 6 |
|---|---|---|---|
| Grant date | 18 July 2018 | 17 December 2019 | 18 August 2020 |
| Number issued | 5,015,000 | 8,400,000 | 6,650,000 |
| Share price at grant date | $0.19 | $0.16 | $0.09 |
| Volatility (average) | 70% | 70% | 90% |
| Fair value at issue date | $0.07 | $0.06 | $0.05 |
| Exercise price | $0.25 | $0.23 | $0.12 |
| Exercisable from | 18 July 2018 | 13 December 2019 | 18 August 2020 |

| | | | |
|---|---|---|---|
| Exercisable to | 16 July 2022 | 12 December 2023 | 18 August 2024 |

*(iii) Valuation assumptions – consultant plans*

| | Plan 7 | Plan 8 | Plan 9 |
|---|---|---|---|
| Grant date | 1 March 2019 | 17 March 2020 | 17 March 2020 |
| Number issued | 6,000,000 | 5,494,505 | 5,494,505 |
| Share price at grant date | $0.215 | $0.11 | $0.11 |
| Volatility (average) | 70% | 70% | 70% |
| Fair value at issue date | $0.06 | $0.04 | $0.03 |
| Exercise price | $0.20, $0.22, $0.24, $0.26 | $0.14 | $0.18 |
| Exercisable from | 1 March 2019 | 17 March 2020 | 17 March 2020 |
| Exercisable to | 31 October 2021 | 17 March 2023 | 16 March 2023 |

| | Plan 10 | Plan 11 | Plan 12 |
|---|---|---|---|
| Grant date | 18 July 2018 | 15 January 2021 | 15 January 2021 |
| Number issued | 775,000 | 9,800,000 | 800,000 |
| Share price at grant date | $0.19 | $0.23 | $0.23 |
| Volatility (average) | 70% | 90% | 90% |
| Fair value at issue date | $0.07 | $0.09 | $0.09 |
| Exercise price | $0.25 | $0.24 | $0.23 |
| Exercisable from | 18 July 2018 | 15 January 2021 | 15 January 2021 |
| Exercisable to | 16 July 2022 | 13 January 2024 | 14 January 2025 |

*(iv) Other employee plans – Zero exercise price options (ZEPOs)*

| | Plan 13 | Plan 14 | Plan 15 |
|---|---|---|---|
| Grant date | 15 April 2021 | 4 November 2020 | 21 June 2021 |
| Number issued | 799,165 | 12,024,727 | 30,738 |
| Fair value at issue date | $0.12 | $0.03 (market conditions)<br>$0.12 (other performance conditions) | $0.12 |
| Exercise price | $0.00 | $0.00 | $0.00 |
| Exercisable from | 15 April 2021 | 1 July 2021 | 5 August 2021 |
| Exercisable to | 15 April 2025 | 14 April 2024 | 15 June 2026 |

## 14. Interest in Joint Operations

### ACCOUNTING POLICY – JOINT OPERATIONS

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group has recognised its share of jointly held assets, liabilities, revenues, and expenses of joint operations. These have been incorporated in the financial statements under the appropriate classifications

In FY2020, the Group entered an unincorporated Joint Operation with Bridgeport Energy (QLD) Pty Limited ("Bridgeport"), whose principal activities are Oil and Gas exploration. The Group intends to gain interests in Cooper Basin ATP 2023 and ATP 2024.

The Group has the option to acquire a 20% interest in ATP 2023 and ATP 2024 by funding:

- In the 12 months commencing May 2020, 40% of the costs of seismic re-processing and G & G, $91,545 and $155,299 actual costs, respectively.

- In the 12 months commencing May 2021, 40% of the costs of 3D seismic over a 2 x 300km$^2$ area, up to $1,880,000 and $1,880,000, respectively.
- Additionally, the Group will fund an administrative overhead based on annual expenditure, at an estimated 6% for the first 12 months and 4% for the second 12 months.
- The 20% interest in ATP 2023 and 2024 will be earned after completing the two years of funding obligations in April 2022.
- After the 20% interest is acquired, the work program commitments are estimated at $2,000,000 for the remaining two years of the program in total.

## 15. Commitments for Expenditure

### ACCOUNTING POLICY – CAPITAL COMMITMENTS

Capital commitments relate to expenditure commitments for the Leigh Creek Urea Project (LCUP) and Joint Operation outstanding at balance date.

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| Leigh Creek Urea Project | 172,712 | 90,091 |
| Interest in Joint Operation – Bridgeport – not longer than one year | 3,760,000 | 261,170 |
| Interest in Joint Operation – Bridgeport – longer than one year but less than five years | 2,000,000 | 3,760,000 |

Under the terms of tenement registration and renewal, tenements have commitments to work requirements. The commitment to work requirements at Leigh Creek is included above. Additionally, there is expenditure required to maintain the joint operation with Bridgeport (Note 14).

There are no other commitments at balance date for expenditure by the Group.

## 16. Leases

### ACCOUNTING POLICY – LEASES

The Group considers whether a contract is or contains a lease. A lease is defined as "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration". To apply this definition, the Group assesses whether the contract meets three key evaluations, which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- The Group has the right to obtain substantially all the economic benefits from the use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- The Group has the right to direct the use of the identified asset throughout the period of use.

The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

**Measurement and recognition of leases as a lessee**

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

After the initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Right of Use Lease Assets

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| **Cost** | | |
| **Balance at 1 July 2020** | **267,020** | - |
| Recognition on adoption of AASB 16 | - | 267,020 |
| **Balance at 30 June 2021** | **267,020** | **267,020** |
| **Accumulated depreciation & impairment** | | |
| **Balance at 1 July 2020** | 21,977 | - |
| Depreciation | 133,693 | 21,977 |
| **Balance at 30 June 2021** | **155,670** | **21,977** |
| **Carrying amounts** | | |
| **At 1 July 2020** | 245,043 | - |
| **At 30 June 2021** | **111,350** | **245,043** |

(1) The Group leases office premises in Adelaide with a remaining lease term of 10 months.

Lease Liabilities

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| Current | 127,517 | 147,864 |
| Non-current | - | 121,006 |
| **At 30 June 2021** | **127,517** | **268,870** |

At 30 June 2021, the Group does not have any short-term lease commitment.

## 17. Financial Assets & Liabilities

### ACCOUNTING POLICY – FINANCIAL ASSETS & LIABILITIES

### FINANCIAL INSTRUMENTS

### RECOGNITION, INITIAL MEASUREMENT AND DERECOGNITION

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled, or expires.

### CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price per AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- amortised cost

- fair value through profit or loss (FVPL)

- equity instruments at fair value through other comprehensive income (FVOCI)

- debt instruments at fair value through other comprehensive income (FVOCI)

All income and expenses relating to financial assets recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables presented within other expenses.

Classifications are determined by both:

The entities business model for managing the financial asset

The contractual cash flow characteristics of the financial assets

All income and expenses relating to financial assets recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables, which is presented within other expenses.

***Financial assets at amortised cost***

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

***Impairment of Financial assets***

AASB 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit losses (ECL) model'. The Group's financial assets include trade and other receivables.

The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (Stage 1) and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (Stage 2).

Stage 3 would cover financial assets that have objective evidence of impairment at the reporting date.

12-month expected credit losses are recognised for the first category, while lifetime expected credit losses are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

***Classification and measurement of financial liabilities***

The Group's financial liabilities include borrowings and trade, and other payables.

Financial liabilities are initially measured at fair value and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value reported in profit or loss are included within finance costs or finance income.

As the Company's shares are traded on an active market, the ASX, the fair value of equity settled financial liabilities is calculated at the closing share price at the valuation date, with movements designated at FVTPL.

## CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amount of financial assets and liabilities at amortised cost are as follows:

| Financial assets | Notes | Financial assets at amortised cost 2021 | Financial assets at amortised cost 2020 |
|---|---|---|---|
| Other assets | 5 | 565,339 | 564,804 |
| Trade and other receivables | 6 | 1,956 | 6,793 |
| Cash and cash equivalents | 5 | 22,812,361 | 6,814,387 |
| | | **23,379,656** | **7,385,984** |

| Financial liabilities | Notes | Other liabilities (amortised cost) 2021 | Other liabilities (amortised cost) 2020 |
|---|---|---|---|
| Current borrowings | 10 | 97,324 | 450,848 |
| Trade and other payables | 9 | 1,233,712 | 477,000 |
| Non-current borrowings | 10 | - | 102,350 |
| Lease Liabilities – Current | 16 | 127,517 | 147,864 |
| Lease Liabilities – Non-current | 16 | - | 121,006 |
| | | **1,458,553** | **1,299,068** |

The carrying amount of financial liabilities at fair value through profit or loss are as follows:

| Financial liabilities | Notes | Other liabilities (FVTPL) 2021 | Other liabilities (FVTPL) 2020 |
|---|---|---|---|
| Other Financial Liability – Current | 24 | 1,757,143 | - |
| | | **1,757,143** | **-** |

## MEASUREMENT

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost.

**Treasury Risk Management**

The risk management of treasury functions is managed by the Audit and Risk Committee.

**Finance Risks**

The Group's financial instruments are exposed to various financial risks, such as Market risk (Interest rate and Price risk), Credit risk and Liquidity risk. The Group operates mainly in Australia and, as such, is not subject to foreign exchange risk at balance date. See Note 23 regarding the implications of the Daelim EPBCF Contract.

**Price risk**

The Group's exposure to price risk is the risk that equity settled financial liabilities value will fluctuate because of changes in the Company's share price.

Sensitivity: At June 30, 2021, if the Company's share price had changed by -/+ 10% from the year-end price with all other variables held constant, post-tax loss, total equity would have been $175,714 (2020: N/A) more/less because of lower/higher movements through FVPL.

**Interest rate risk**

The Group's exposure to interest rate risk is the risk that a financial instrument's value will fluctuate because of changes in market interest rates on classes of financial assets and liabilities.

Sensitivity: At June 30, 2021, if interest rates on cash and term deposits had changed by -/+ 10 basis points from the year-end rates with all other variables held constant post-tax loss, total equity would have been $172 (2020: $1,907) more/less because of lower/higher interest income.

At June 30, 2021, the Group did not have any interest-sensitive borrowings. For comparative, in 2020, if interest rates on borrowings had changed by -/+ 10 basis points from the year-end rates with all other variables held constant post-tax loss, total equity would have been $124 more/less because of lower/higher interest expense.

**Credit risk**

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligation that could lead to a financial loss to the Group. The Group's maximum exposure to credit risk is its cash and cash equivalents and receivables, as noted in the table above. The Group manages its credit risk by depositing with reputable licenced banks.

**Liquidity risk**

Liquidity risk arises from the possibility that the Group might encounter difficulty settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate funding sources are available.

**Maturity:** All of the Group's financial liabilities are expected to fall due within one year. For comparison, in 2020, financial liabilities of $1,075,712 were to fall due within one year, and financial liabilities of $223,356 were to fall due from one to two years.

## 18. Notes to the Statement of Cash Flows

### (A) RECONCILIATION OF CASH

For the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments. Cash at the end of the financial year, as shown in the statement of cash flows, is reconciled to the related items in the statement of financial position as follows:

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| Bank balances and short-term deposits | 22,812,361 | 6,814,387 |

The weighted average effective interest rate on bank deposits is 0.00% (2020: 0.04%). All deposits are for less than 12 months.

### (B) RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH LOSS AFTER TAX

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| Loss after income tax | (13,574,173) | (7,154,941) |
| Cash flows excluded from loss attributable to operating activities: | | |
| Non-cash flows in operating loss | | |
| Depreciation expense | 179,732 | 77,677 |
| Share-based payments | 3,410,167 | 1,604,244 |
| Interest | 4,719,413 | 152,566 |
| Change in assets and liabilities | | |
| Decrease/(Increase) in receivables / prepayments | (293,121) | (1,063,488) |
| Increase/(Decrease) in payables | 756,711 | (290,908) |
| Increase/(Decrease) in provisions | 188,112 | (41,137) |
| Decrease/(Increase) in long-term deposits | (535) | 198,636 |
| Increase/(Decrease) in tax refund receivable | - | 517,416 |
| **Net cash (used in) / provided by operating activities** | (4,613,694) | (5,999,935) |

## 19. Parent Entity Disclosures

### INVESTMENT IN CONTROLLED ENTITIES

| Entity | Country of incorporation | Class of share | Interest Held | |
|---|---|---|---|---|
| | | | 2021 | 2020 |
| Leigh Creek Oil and Gas Pty Ltd | Australia | Ordinary | 100% | 100% |
| Leigh Creek Operations Pty Ltd | Australia | Ordinary | 100% | 100% |
| Leigh Creek Consulting Pty Ltd[1] | Australia | Ordinary | 100% | - |
| Leigh Creek Financial Pte Ltd[2] | Singapore | Ordinary | 100% | - |

(1) Incorporated 15th December 2020
(2) Incorporated 4th June 2021

### PARENT ENTITY INFORMATION

| | 2021 $ | 2020 $ |
|---|---|---|
| **Parent Entity** | | |
| **Asset** | | |
| Current assets | 23,039,068 | 7,329,242 |
| Non-current assets | 30,888,279 | 27,743,537 |
| **Total assets** | **53,927,347** | **35,072,779** |
| | | |
| **Liabilities** | | |
| Current liabilities | 3,261,073 | 1,433,916 |
| Non-current liabilities | 105,135 | 223,356 |
| **Total liabilities** | **3,366,208** | **1,657,272** |
| | | |
| **Equity** | | |
| Issued capital | 105,998,227 | 79,484,926 |
| Share option reserve | 8,260,419 | 4,053,915 |
| Accumulated losses | (63,697,507) | (50,123,334) |
| **Shareholder equity** | **50,561,139** | **33,415,507** |
| | | |
| **Financial performance** | | |
| Profit (loss) for the year | (13,574,173) | (7,154,942) |
| Other comprehensive income | - | - |
| **Total comprehensive income** | **(13,574,173)** | **(7,154,942)** |

The parent entity has not entered a deed of cross guarantee, nor are there any contingent liabilities at the year-end.

### ACCOUNTING POLICY – CAPITAL COMMITMENTS FOR PARENT

Capital commitments relate to expenditure commitments for the Leigh Creek Urea Project (LCUP) outstanding at balance date.

| | 2021 $ | 2020 $ |
|---|---|---|
| Leigh Creek Operations Pty Ltd | 172,712 | 90,091 |

## 20. Related Party Transactions

### TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel of the Group are the members of the Group's Board of Directors and members of the management team. Key management personnel remuneration includes the following expenses:

| | 2021 $ | 2020 $ |
|---|---|---|
| Total short-term employee benefits | 1,188,647 | 996,780 |
| Total post-employment benefits | 106,571 | 116,112 |
| Share-based payments | 1,709,719 | 75,469 |
| **Total Remuneration** | 3,004,937 | 1,188,371 |

The amounts disclosed in the table are the amounts recognised as an expense during the reporting year. Detailed disclosure is included within the remuneration report.

### OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Transactions between related parties are on standard commercial terms and conditions no more favourable than those to other parties, unless otherwise stated:

i) Piper Alderman lawyers were paid $231,314 (2020: $151,912) for legal services rendered to the Group. There was $177,628 due for payment at the end of the reporting period. Greg English is a partner at Piper Alderman lawyers and was a Non-Executive Director of the Company during the year.

ii) Investment Company Services Pty Ltd was paid $550 (2020: $29,067) to provide investor relations services to the Group. There was no outstanding balance at the end of the reporting period. The party is related to Mr Peters, Executive Chairman of the Company.

iii) Zheng Xiaojiang provided consulting services for $210,833 and was reimbursed for travel expenses of $54,833 during the year totalling $265,666 (2020: $201,250). There was $19,167 due for payment at the end of the reporting period. Mr Xiaojiang is a Non-Executive Director of the Company.

iv) In 2020, a binding heads-of-agreement was entered into between China New Energy and the Company, for the Company to commence ISG in China with a focus on hydrogen and fertiliser production. Mr Zhe Wang is an employee at China New Energy and is a Non-Executive Director of the Company. No amount has been received or incurred in relation to this agreement.

## 21. Auditor's Remuneration

During the year, the following fees were paid or payable for services provided by the Auditor of the Group:

| | 2021 $ | 2020 $ |
|---|---|---|
| Auditing and review services | 50,777 | 49,370 |

During the year, Grant Thornton Audit Pty Ltd, the Company's auditors, did not undertake any additional services to their statutory audit duties.

## 22. Earnings per Share

**Accounting policy – Earnings per Share**

i) *Basic earnings per share*
Basic earnings per share are calculated by dividing the profit (loss) attributable to equity holders, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year.

ii) *Diluted earnings per share*
The Diluted earnings-per-share calculation adjusts the figures used to determine basic earnings per share to consider the weighted average number of shares assuming conversion of all dilutive potential ordinary shares.

The basic earnings per share calculation at 30 June 2021 was based on the loss attributable to ordinary equity holders of $13,574,173 (2020: $7,154,941) and a weighted average number of ordinary shares outstanding during the 12 months of 658,342,014 (2020: 567,407,752).

The diluted loss per share calculation at 30 June 2021 is the same as the basic diluted loss per share. Per AASB 133 Earning per share, as potential ordinary shares may result in a situation where their conversion decreases the loss per share, no dilutive effect has been considered. There were no dilutive potential ordinary shares in existence during the year (2020: none) as the Company's share options were anti-dilutive.

| | 2021<br>$ | 2020<br>$ |
|---|---|---|
| **Loss used to calculate basic EPS** | **(13,574,173)** | **(7,154,941)** |
| | ***Cents*** | **Cents** |
| Basic earnings per share – cents per share | (2.06) | (1.26) |
| Diluted earnings per share – cents per share | (2.06) | (1.26) |
| **Weighted average number of shares used as denominator** | | |
| Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS | 658,342,014 | 567,407,752 |

## 23. EPCCF Contract between the Company and DL E&C Co. Ltd (Daelim)

In June 2021, the Company entered into an Engineering, Procurement, Construction, Commissioning and Finance (EPCCF) contract for a 1Mtpa urea production plant to South Korean engineering and construction company, DL E&C Co. Ltd (Daelim).

Daelim will manage the LCUP Bankable Feasibility Study (BFS), and Front End Engineering & Design (FEED) stages ahead of a Final Investment Decision (FID). Once FID is achieved and all relevant key engineering data and project execution documents are finalised with LCK, Daelim will perform the engineering, procurement, construction, and commissioning of the urea production facilities.

In addition, Daelim has secured the support of a major Korean financial institution to fund 70% of the project, being approximately $1.5b. This is via a letter of support by that institution that is subject to the agreement of commercial terms and a positive FID. The balance of that funding is to be secured by a combination of debt and equity to other parties once FID is reached. As at 30 June 2021, milestone one of the contract had not been achieved, the issue of a Notice to Proceed from the Company to Daelim, and, as such, the Company had no obligations in regards to service fees or other payables at this date.

Services provided under the contract require a fixed sum payment of USD 29,265,000 to Daelim, payable in four milestones. As at 30 June 2021, these milestones have not been met but are payable as follows:

1) the first instalment being 30% of the Services Fee to be invoiced on or after the Company gives Daelim the Notice to Proceed (see Note 25).
2) the second instalment being 30% of the Services Fee to be invoiced on or after the first date on which the process design packages for both the ammonia (including sulphur recovery) plant and the urea plant comprised in the Works have been delivered to Daelim by the relevant Licensor.
3) the third instalment being 15% of the Services Fee to be invoiced on or after the date Services Completion occurs; and
4) the fourth instalment being 25% of the Services Fee to be invoiced on or after the date that the Company's board of directors makes a FID on the LCUP Fertiliser Project.

## 24. Energy Exploration Capital Partners, LLC (EECP) Funding agreement

In January 2021, the Company announced it had entered into an Institutional Share Placement agreement with Energy Exploration Capital Partners, LLC (EECP). The financing agreement consists of phased payments of up to $18m in $6m tranches. The initial tranche of $6m less fees was received in January 2021 on the execution of the funding agreement. On execution, the Company recognised a Financial Liability of $6,540,000 for the fair value of shares to be issued. The initial Placement Price of these shares was determined as 90% of the average of five daily VWAPs per share (selected by EECP) during the 20 trading days before payment, the 4th of January 2021, and that the Company would be required to issue 48,805,970 Placement Shares in settlement of this Financial Liability. Until these shares have been issued in full, the Company carries a Financial Liability, with the movements in the Fair Value of the shares moving through Fair Value Through Profit or Loss (FVTPL).

The Company made an initial issuance of 6.75m Placement Shares to the Investor at the time of execution of the agreement, towards the ultimate number of Placement Shares to be issued. However, in lieu of applying these shares towards the aggregate number of the Placement Shares to be issued by LCK, the Investor elected to make a further payment to the Company equal to the value of these shares determined using the Purchase Price at the time of the payment. The Investor elected to purchase these 6.75m shares in May 2021 instead of applying these shares towards the aggregate number of Placement Shares. In May 2021, the Company issued 35m shares to EECP in partial settlement of the Placement Shares. The Placement Price of these shares was calculated as

$4,900,000. However, the fair value at the date of issue was $8,050,000, with the difference being carried through FVTPL.

The incremental fair value of the tranche one placement shares unissued at 30 June 2021 was recognised, increasing the financial liability at balance date from $1,640,000 to 1,757,143. The remaining tranche one placement shares are to be issued within 24 months, at the election of EECP, calculated as the average of five single-day VWAPs per share during the 20 consecutive trading days immediately before LCK receives notice from EECP.

| Description | Funds received $ | Expense/FVTPL $ | Other Financial Liability movement $ | Other Financial Liability balance $ |
|---|---|---|---|---|
| Financial Liability recognition – Jan 2021 | 6,000,000 | 540,000[1] | (6,540,000) | (6,540,000) |
| Commencement Fee – Jan 2021 | - | 685,075[2] | - | (6,540,000) |
| Receipt for the initial placement shares – May 2021 | 951,750 | 195,750[3] | - | (6,540,000) |
| Issue of shares in partial settlement – May 2021 | - | 3,150,000[4] | 4,900,000 | (1,654,000) |
| Incremental FV of Financial Liability at 30 June 2021 | - | 117,143[5] | (117,143) | (1,757,143) |
| **Year ended 30 June 2021** | **6,951,750** | **4,687,968** | **-** | **(1,757,143)** |

(1) The expense of the difference in the initial subscription amount ($6,540,000) to be settled by issue of shares and the funds received upfront ($6,000,000)
(2) Measurement through FVTPL of the difference between the issue price of shares issued to settle the commencement fee of $540,000 and the share issue price at the issue date (6th January 2021), i.e. (4,029,851*$0.17)-$540,000 = $145,075
(3) Measurement through FVTPL of the difference between the share price per the VWAP formula and the share issue price at the issue date (6th January 2021), i.e. 6,750,000*($0.17-$0.14) = $195,750
(4) Measurement through FVTPL of the difference between the share price per the VWAP formula and the share issue price at the issue date (5th May 2021), i.e. 35,000,000*($0.23-$0.14) = $3,150,000
(5) Measurement through FVTPL of the difference between the share price per the VWAP formula and the balance date (30th June 2021), i.e. 11,714,286*($0.15-$0.14) = $117,143

LCK issued 4,029,851 shares in satisfaction of a commencement fee payable to the Investor. LCK also issued 9.8m options to the investor exercisable at $0.236 (representing a 140% premium over 20-day VWAP to the 4th of January) valued at $726,586 under the Black Scholes model that considers the share price at issue date, the exercise price, the term until expiry, and an implied volatility estimate (see note 13).

LCK can progress with tranches 2 and 3 of the placement at its absolute discretion. As at 30 June 2021, the Company has not elected to draw on tranches 2 or 3 under this agreement. Tranches 2 and 3 must be settled no later than 12 and 18 months, respectively, after the receipt of the funding under the first tranche (January 2021).

## 25. Matters Subsequent to the End of the Year

On 21 July 2021, the Company entered into a contract with Drivetrain Australia to purchase four Siemens power generators. These are long lead time items required for the commercial development of the LCUP project.

On 28 July 2021, the Board resolved to issue up to 5,000,000 employee options under the terms of the ESOP to eligible staff as part of an annual reward and recognition process. On 19 August 2021, 4,520,000 of these options were issued.

On 2 August 2021, the Company issued a formal Notice to Proceed to Daelim under its Engineering, Procurement, Construction and Commissioning Contract. Under the terms of the Contract, subsequent to the issue of this Notice, the Company is liable to pay Daelim USD 8,779,500 by 30 September 2021.

## 26. Company Details

The registered office and principal place of business is:

Leigh Creek Energy Limited

Level 11, 19 Grenfell Street

Adelaide, South Australia 5000

Grant Thornton

Level 3, 170 Frome Street
Adelaide SA 5000

Correspondence to:
GPO Box 1270
Adelaide SA 5001

**T** +61 8 8372 6666



# Independent Auditor's Report

## To the Members of Leigh Creek Energy Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of Leigh Creek Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material uncertainty related to going concern

We draw attention to Note 1(j) in the financial statements, which indicates that the Group incurred a net loss of $13,574,173 during the year ended 30 June 2021, with negative operating and investing cashflows of $7,752,166. As stated in Note 1(j), these events or conditions, along with other matters as set forth in Note 1(j), indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Exploration and evaluation assets - Note 8** | |
| At 30 June 2021 the carrying value of exploration and evaluation assets was $30,823,397.<br><br>In accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources*, the Group is required to assess at each reporting date if there are any triggers for impairment which may suggest the carrying value is in excess of the recoverable value.<br><br>The process undertaken by management to assess whether there are any impairment triggers in each area of interest involves an element of management judgement.<br><br>This area is a key audit matter due to the significant judgement involved in determining the existence of impairment triggers. | Our procedures included, amongst others:<br>• obtaining the management reconciliation of capitalised exploration and evaluation expenditure and agreeing to the general ledger;<br>• reviewing management's area of interest considerations against AASB 6;<br>• conducting a detailed review of management's assessment of trigger events prepared in accordance with AASB 6 including;<br>• tracing projects to statutory registers, exploration licenses and third party confirmations to determine whether a right of tenure existed;<br>• enquiry of management regarding their intentions to carry out exploration and evaluation activity in the relevant exploration area, including review of management's budgeted expenditure;<br>• understanding whether any data exists to suggest that the carrying value of these exploration and evaluation assets are unlikely to be recovered through development or sale;<br>• evaluating the competence, capabilities and objectivity of management's experts in the evaluation of potential impairment triggers; and<br>• assessing the appropriateness of the related financial statement disclosures. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Energy Exploration Capital Partners, LLC ("EECP") Funding agreement – Note 24** | |
| On 5 January 2021, the Company entered into a Subscription Agreement for a private placement of shares with EECP.<br><br>Under the agreement, EECP has agreed to invest an aggregate amount up to $18 million to subscribe for shares, and the Company agreed to issue shares to EECP from time to time for an aggregate subscription price of up to $19.35 million where the per share value is determined by application of formula detailed in the Subscription Agreement.<br><br>The $18 million was separated into 3 tranches of $6 million, the first of which was drawn down on execution of the Subscription Agreement prior to 30 June 2021.<br><br>Given the amount of the funding received and the complexity of the Subscription Agreement with EECP we have assessed this arrangement as a Key audit matter. | Our procedures included, amongst others:<br>• obtaining a copy of Subscription Agreement relating to the private placement of shares to understand the key contract terms and conditions;<br>• reviewing technical accounting advice prepared by Managements Experts relating to the application of the EECP Subscription Agreement;<br>• Assessing managements experts qualifications, experience and independence;<br>• Utilising our internal experts to assess the technical accounting advice prepared by Managements expert;<br>• assessing the mathematical accuracy of the computations prepared by management in relation to the EECP share placement transaction; and<br>• assessing the adequacy of the financial statement disclosures in respect of the EECP share placement and Subscription Agreement. |
| **Share based payment – Note 13** | |
| During the financial year, the Group has incurred share based payments through the issue of unlisted options totalling $4,206,504 to employees, key management personnel, contractors and financiers as remuneration for services rendered.<br><br>The Unlisted Options issued to key management personnel included multiple vesting conditions including market and non-market performance conditions.<br><br>In addition to the above and subsequent to their initial issue, the Board waived all existing market and non-market vesting conditions for key management personnel and replaced them with a single, non-market vesting condition.<br><br>Share based payments are considered to be a key audit matter due to:<br>• the value of the transactions;<br>• impacts on key management personnel remuneration;<br>• the complexity around modifications undertaken after initial recognition and the accounting implications;<br>• the complexities involved in the recognition and measurement of these instruments; and<br>• the judgements involved in determining the inputs used in the valuations. | Our procedures included, amongst others:<br>• analysing agreements and all board resolutions relating to the issuance of share-based payments to identify the key terms and relevant vesting conditions in accordance with AASB 2 *Share Based Payments*;<br>• obtaining all board resolutions relating to the modification of vesting conditions of the share-based payments;<br>• evaluating managements experts accounting advice relating to the impacts for the modification of vesting conditions of share-based payment to key management personnel;<br>• Assessing managements experts qualifications, experience and independence;<br>• Utilising our internal experts to assess the technical accounting advice prepared by Managements expert;<br>• evaluating managements valuation models and assessing the assumptions and inputs used;<br>• assessing the amount recognised during the year in accordance with the vesting conditions of the agreements; and<br>• assessing the adequacy of the financial statements' disclosures with respect to the share-based payments including modification. |

## Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Company's/Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company/Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf. This description forms part of our auditor's report.

## Report on the remuneration report

### Opinion on the remuneration report

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Leigh Creek Energy Limited, for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

## Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 28 September 2021

## CORPORATE DIRECTORY

**Directors**

Daniel J Peters
*Executive Chairman*

Phillip Staveley
*Managing Director*

Gregory D English
*Non-Executive Director*
*(resigned 22 June 2021)*

Murray K Chatfield
*Non-Executive Director*

Zhe Wang
*Non-Executive Director*

Zheng Xiaojiang
*Non-Executive Director*

**Company Secretary**

Jordan Mehrtens
Damien Connor

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**Bankers**
Commonwealth Bank of Australia
96 King William Street
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**Auditors**
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Adelaide, South Australia 5000

**Principal Lawyers**
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Level 16, 70 Franklin Street
Adelaide, South Australia 5000

**Share Registrar**
Computershare Registry Services Pty Ltd
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LCK

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