

Monday, 20 April 2020: ASX ANNOUNCEMENT



China Joint Venture Progress

Leigh Creek Energy (LCK) and China New Energy (CNE), part of the Shanxi Meijin Energy Group have today signed a binding term sheet for their proposed Joint Venture for In-Situ Gasification operations in China. The agreement covers

- Scope and Purpose of the Joint Venture
- Material Terms of the Joint Venture
- Roles of LCK and CNE in the Joint Venture
- Remuneration of the parties in the Joint Venture

Leigh Creek Energy Limited (LCK) and China New Energy Group Limited (CNE) have signed a binding term sheet outlining the terms and conditions of a Joint Venture Agreement (JV) for In-Situ Gasification (ISG) operations in China.

CNE brings funding, access to coal and knowledge and familiarity with the Chinese regulatory system to the JV. LCK brings the knowledge and expertise gained through the preceding four years culminating in operational expertise demonstrated by the successful operation of its pre-commercial demonstration (PCD) facility. CNE has large commercial interests in significant underground coal resources in northern China's Shanxi Province and it is the JV's intention to develop these interests as well as third party coal interests in China. CNE also has commercial interests in steel mills producing over 2 million tonnes of steel per annum, a fertiliser plant, 3 gas fired power stations, 4 coking and pulverised coal injection coal mines, and thermal coal leases.

The JV will provide LCK with early access to funding without the need for additional outlays. It is intended that the Agreement will be replicable across multiple ISG projects in mainland China, both those owned by CNE and also third parties' projects.

The JV is structured to outline LCK's major responsibilities in three stages for each ISG project, to evaluate the suitability of sites for their ISG potential, conduct a PCD at selected sites and deliver a 2P reserve for each targeted resource.

LCK will receive remuneration for each stage depending on its nature. Consulting fees in the initial evaluation phase, mix of capital returns and fees in the PCD phase, and capital returns and royalties once a targeted reserve has been developed.

Terms of the Joint Venture

The material terms of the JV include the following:

- a) Participating Interests** – on commencement, the participating interests will be: CNE 65%, LCK 35%.
- b) Voting Thresholds** –
 - A unanimous vote required on the following decisions:
 - Work program for a permit;
 - Surrender of whole or part of permit area;
 - Any other matter which the JV specifies requires unanimous approval.
- c) Remuneration to Leigh Creek Energy (LCK) from CNE**
 - LCK shall be reimbursed by the JV on a cost-plus basis for work up to and including any reserves upgrade;
 - Following a financial valuation, a success-based payment, which will be set out in the Agreement between CNE and LCK, would be paid to LCK;
 - This would be based on a percentage of the increase in financial valuation following the 2P upgrade in \$/PJ for syngas or equivalent for hydrogen.
- d) Remuneration to Joint Venture from third party permit holder**
 - In the event that CNE is not the holder of the permit, a royalty-based payment, based on the volume of syngas or hydrogen would be set out in the JV between CNE and LCK, which would be paid to both parties in accordance with the Participating Interests.

Managing Director's Comments

LCK Managing Director Phil Staveley said: "Today's announcement is an exciting development for ISG between LCK and our Chinese partners. It provides LCK with access to the Chinese market, with a trusted partner and access to significant revenue stream. It is expected that substantive work on ISG will start in 2020 as some project evaluation has already taken place in locations in China. However, given the COVID 19 situation it is very difficult for LCK to be able to predict when LCK staff will be allowed to travel and return to Australia from China and as such timing remains fluid."

The Board of Leigh Creek Energy authorises this announcement to be given to the ASX

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About Leigh Creek Energy Located in South Australia, Leigh Creek Energy Limited (ASX: LCK) is an emerging energy company focused on developing its Leigh Creek Energy Project (LCEP). The LCEP will produce pipeline quality gas and/or nitrogen fertiliser products from the remnant coal resources at Leigh Creek by utilising In Situ Gasification technologies. LCK is committed to developing the LCEP using a best practice approach to mitigate the technical, environmental and financial project risks.

For information on the ISG process [CLICK](#)