HD **LEC Lignol Energy loses $5.5-million in Q3 2014**

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Lignol Energy Corp (TSX-V:LEC)

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Mr. David Turner reports

LEC PROVIDES CORPORATE UPDATE & REPORTS FISCAL 2014 THIRD QUARTER RESULTS

Lignol Energy Corp. is working with its financial advisers to establish the terms of a financing which it needs to complete within the next month. The company has also released its unaudited consolidated financial results for the three months and nine months ended Jan. 31, 2014.

The company is undergoing a transformation from a leading technology developer in the biorefining sector, to that of an owner of commercial biorefining assets. Over the course of the last two years, LEC has made investments in three renewable biofuels companies which collectively own six plants. These investments have leveraged LEC's expertise gained through its experience with the development of its proprietary biorefining technology.

While each of these investments represents an opportunity to create shareholder value, LEC's immediate priority is to complete a financing and allocate capital largely for the restart of its 140 million litres per year biodiesel plant in Darwin, Australia. The project has been developed with innovative contracts for feedstock procurement and off-takes so as to create the framework for a financially attractive project that is expected to fuel LEC's expansion plans and other projects. In order to meet its current obligations and provide payments to maintain title to assets, LEC needs to take steps over the coming month to complete a financing.

Territory Biofuels

In February, 2014, LEC completed the acquisition of 100 per cent of TBF. TBF's Darwin plant is Australia's single-largest biodiesel plant and glycerine refinery, with an annual production capacity of 140 million litres of biodiesel. LEC is currently seeking to raise funds to restart the existing facility with process improvements which enable the plant to process low-cost feedstocks.

Various financing options are being explored to optimize value, which could involve the participation of strategic partners. One such strategic partnership was recently announced for a potential joint venture with Milio International which will provide a $25-million working capital mechanism for feedstock procurement and to facilitate the marketing and sales of biodiesel.

TBF's business plan is focused on three key elements:

- Production of high-quality biodiesel and glycerine from a range of low-cost feedstocks;

- A robust feedstock supply chain with multiple sources of environmentally certified waste feedstocks;

- Establishment of robust sales channels for the off-takes of biodiesel into multiple export markets in addition to domestic and regional sales. In this regard, TBF has recently received:

- International Sustainability and Carbon Certification for sales at premium prices into the European market;

- U.S. Environmental Protection Agency approval as a renewable identification number-generating foreign producer for exports to the United States.

Australian Renewable Fuels

LEC is currently the largest single direct shareholder in ARW with an ownership interest of 21 per cent. LEC does not have any influence over the affairs of ARW and does not have board representation. ARW is listed on the Australian Securities Exchange and has the trading symbol ARW.

ARW publishes accounts on a half-yearly basis. ARW's interim financial report for the half-year ended Dec. 31, 2013, stated that the **company** had made a net loss after tax of $2.3-**million** (Australian) compared with a profit of $1.4-**million** (Australian) in the same period in 2012. The share price of ARW has declined considerably over the past year.

The **company** continues to be optimistic that commercial synergies would be worth developing with ARW and its other Australian biodiesel interests, however to date Lignol has been unsuccessful in this regard.

Neutral Fuels

Neutral Fuels has an agreement with McDonald's to roll out its program for the collection of used cooking **oil** and the conversion of that used cooking **oil** into biodiesel in the Asia Pacific/Middle East/Africa region. Currently Neutral Fuels operates two closed-loop biorefineries located in Dubai, United Arab Emirates, and Melbourne, Australia.

LEC's interest in Neutral Fuels currently consists of a 20-per-cent interest in Neutral Fuels Parent **Company** and a 51-per-cent interest in Neutral Fuels (Melbourne) Pty. Ltd., which has the exclusive rights for the Australia and New Zealand region.

The Dubai operation is modestly profitable, with sales to existing customers continuing to increase and additional new business anticipated. The Melbourne operation is not yet profitable with both collection of used cooking **oil** and sales trending below plan. In the meantime, there is considerable interest in accelerating the rollout of the McDonald's biodiesel program in key locations in the APMEA region. Specifically, an important pilot project in one major market has recently reported successful outcomes, resulting in the expansion of the pilot project to include additional restaurants. Project development is also under way in two other countries in the region.

Over the course of the last several months management has been undertaking an in-depth review of the NFPC business model and associated capital requirements in order to determine the most effective and profitable way to accelerate the rollout of the McDonald's biodiesel program. As announced on Nov. 13, 2013, LEC had planned to increase its ownership of NFPC from 20 per cent to 40 per cent by the end of February. Upon completion of the current review, both NFPC and LEC expect to raise the necessary capital to meet the requirements of the revised business plan.

Lignol Innovations Ltd.

LIL has developed two distinct but related technologies, each offering its own value proposition and investment opportunity. One covers biorefining technology and the other covers lignin IP and lignin applications.

Starting from the proven Alcell organosolv pretreatment process, which was acquired by LIL, the **company** developed a commercially ready integrated biorefinery process and also an extensive IP portfolio and a highly regarded capability in lignin applications development. LIL is positioned to commercialize both of these assets and is seeking one or more partners with a complementary strategy and the resources to **lead** the commercialization effort.

In the course of developing its biorefinery process technology, LIL has performed extensive R&D into the physical and chemical properties of the proprietary HP-L lignin produced by the process, as well as other lignins and lignin-based materials produced from other biorefinery processes and from Kraft and other pulping processes. Based on LIL's work, a series of core composition of matter patents have been issued which are very broad in scope and cover lignins produced from hardwoods, softwoods and annual fibres, whether as an intermediate stream or as a final product. Several patent applications are also pending.

These patents could have implications for present and future lignin producers and users, irrespective of the production process used.

LIL believes that longer-term significant revenues could result from licensing or selling its lignin IP portfolio and is preparing to pursue strategies along these lines as this could represent a significant strategic and financial benefit to the company.

LEC consolidated financial results for the quarter and the nine months ended Jan. 31, 2014

LEC going concern

As noted earlier, the company is an emerging producer of biofuels, biochemicals and renewable materials. LEC is undergoing a transformation from a leading technology developer in the biorefining sector, to that of an owner of commercial biorefining assets. The company is considered to be in the development stage and is currently exploring ways to raise capital in order to develop its various investments and in particular the plant in Darwin, Australia, owned by TBF. LEC's consolidated financial statements have been prepared on a going concern basis which assumes that the company will continue its operations for the foreseeable future and contemplates the realization of assets and the settlement of liabilities in the normal course of business.

During the nine-month period ended Jan. 31, 2014, the company had a net loss of $9.6-million, of which approximately $2.3-million related to costs incurred developing the Darwin project, negative cash flow from operations of $5.2-million and negative working capital of $13.3-million. Historically the company has had operating losses, negative cash flow from operations and working capital deficiencies. The company must raise sufficient capital and execute on its commercialization plans in order to achieve positive cash flows from operations. Otherwise the prospects for the company to continue as a going concern are uncertain. The company has also entered into a revolving secured credit facility with Difference Capital Financial Inc. for up to $12.5-million, as further described in note 6 to the company's financial statements. At Jan. 31, 2014, $11,785,000 had been drawn on the credit facility which is included in the negative working capital amount of $13.3-million, described above.

The company needs to raise capital in order to finance its operations, to restart the Darwin facility, and to maintain the operations of its other business interests. The company's ability to raise capital may be adversely impacted by, among other things, current market conditions, and changes in the economics of and government incentives available in the renewable fuels markets. The company is working with its financial advisers to develop a framework which provides a means of dealing with the company's obligations to DCF and to establish the terms of potentially one or more financings. The majority of the funds obtained from such financings would be used to meet LEC's current obligations and to initiate the restart of TBF's Darwin plant, leaving modest amounts to maintain the balance of current operations without growth or expansion. A variety of financing options are being considered including partnering with various organizations, accessing additional government grants and seeking to raise one or more of equity, debt and project finance either at the company or the subsidiary level. There is no assurance that these activities will be successful as outcomes cannot be determined at this time.

The company currently forecasts that its working capital requirements for the next 12 months will exceed the funds available from a combination of its current working capital, from its revolving credit facility and from existing government grants and corporate relationships, and the company estimates that that this shortfall will occur in early fourth quarter of the current fiscal year. The ability of the company to continue as a going concern is dependent upon its ability to continue to finance its business objectives and to be able to repay amounts drawn under the DCF credit facility. The conditions and risks noted above cast significant doubt on the validity of that assumption.

The company's financial statements do not give effect to any adjustments to the amounts and classification of assets and liabilities that may be necessary and would be material, should the company be unable to continue as a going concern.

Shareholders should also refer to the liquidity and capital resources section of the related management's discussion and analysis of financial condition and results from operations.

Lignol's complete financial statements for the three- and nine-month periods ended Jan. 31, 2014, and the related management's discussion and analysis of financial condition and results from operations are available at the company's website or on SEDAR under the company's profile. The financial statements were prepared in accordance with international financial reporting standards.

Highlights of the quarter

During the quarter, LEC negotiated the acquisition of 100 per cent of the outstanding and issued common shares of TBF by means of an exchange of the then outstanding TBF shares for common shares of LEC, which closed immediately after the end of the financial quarter. LEC also successfully completed the funding of the first $2-million (Australian) tranche of a $4.07-million (Australian) loan to Neutral Fuels which provided LEC with a 20-per-cent interest in NFPC and a 51-per-cent interest in NF Melbourne with effect from Nov. 12, 2013. LEC's management continued to be extensively involved in managing the affairs of TBF which included working on a number of key milestones which should improve the company's ability to raise capital for the restart of the Darwin plant.

Territory Biofuels

TBF made excellent progress during the quarter with various activities related to the planning of the restart of the Darwin plant including:

- Receiving International Sustainability and Carbon Certification and U.S. Environmental Protection Agency approval as a renewable identification number-generating foreign producer for its Darwin biodiesel plant, paving the way for exports to markets in Europe and the United States;

- Initiated discussions which resulted in the signing a formal memorandum of understanding with Milio International for the development of a joint venture on Feb. 13, 2014. Under the terms of the planned JV, it is anticipated that Milio will finance up to 120,000 tons of feedstock per year as well as facilitate the marketing and sales of the production from TBF's 140-million-litre-per-year biodiesel plant located in Darwin, Australia. At full production capacity this financing will potentially provide working capital financing of up approximately $25-million (U.S.). At full production Milio will provide financing for up to 120,000 tons of feedstock per year and will receive 25 per cent of the net profits earned on the sale of related production. In addition, Milio has agreed to assist in the restart of the Darwin plant with the financing of 1,500 tons of feedstock for an initial start-up campaign and up to 10,000 tons for an initial commercial campaign. As additional consideration for this support, Milio will receive funds sufficient to recover Milio's costs and also the provision of $600,000 in shares of LEC or cash by mutual agreement;

- Advancing discussions with respect toward the establishment of feedstock supply chains;

- Engaged Lurgi Engineering (original technology provider for the Darwin plant) together with third party engineering firms to validate the capital cost estimates and timelines for the restart of the Darwin plant.

Australian Renewable Fuels

ARW publishes accounts on a half-yearly basis. ARW's interim financial report for the half-year ended Dec. 31, 2013, stated that the company had made a net loss after tax of $2.3-million (Australian) compared with a profit of $1.4-million (Australian) in the same period in 2012.

As of Jan. 31, 2013, LEC's cumulative cost of investment in ARW was $10.1-million compared with the quoted market value of the ARW shares the company holds of $5.9-million. Given the decline in market value of the company's investment in ARW, an impairment loss of $3.1-million was recorded during the quarter, while $1.5-million was reversed from other comprehensive loss.

Neutral Fuels Parent Company and Neutral Fuels Melbourne

The Dubai operation is modestly profitable, with sales to existing customers continuing to increase and additional new business anticipated. The Melbourne operation is not yet profitable with both collection of used cooking oil and sales trending below plan. In the meantime, there is considerable interest in accelerating the rollout of the McDonald's biodiesel program in key locations in the APMEA region. Specifically, an important pilot project in one major market has recently reported successful outcomes, resulting in the expansion of the pilot project to include additional restaurants. Project development is also under way in two other countries in the region.

Lignol Innovations

During the quarter, LIL continued to have discussions with potential partners with respect to a possible opportunity to commercialize its technology in China, made arrangements to ship tonnage quantities of lignin to various parts of the world for commercial trials in new product applications and advanced discussions with respect to a joint project involving the extraction of co-products, including high-value lignin from novel agricultural materials.

Financial results

The consolidated financial statements of the company for the quarter ended Jan. 31, 2014, include the accounts of LEC and its subsidiaries LIL and TBF. The company's investment in NFPC and NF Melbourne are accounted for on an equity accounting basis as both investments are considered to be joint ventures in accordance with IFRS. LEC's investment in ARW is accounted for as an available-for-**sale equity** investment.

For the three-month period ended Jan. 31, 2014, the **company** reported a loss of $5.5-**million**, an increase of $3.8-**million** over the three-month period ended Jan. 31, 2013. This translated to a loss of four cents per share (basic and fully diluted) in the third quarter of fiscal 2014, compared with a loss of one cent per share in the third quarter of fiscal 2013. The increase was caused by a $3.1-**million** charge in the third quarter of fiscal 2014 related to an impairment in the value of the **company**'s investment in shares of ARW, an increase of $1.3-**million** in interest expenses less a positive variance of $600,000 which related to the impact of foreign exchange on the translation of certain TBF assets.

Research and development expenses increased by $200,000 as a result of the consolidation of $300,000 in TBF related plant development expenses less a $100,000 reduction in lignin development expenses incurred by LIL. General and administrative expenses were unchanged at $800,000 in both quarters. LIL's government grant receipts increased by $400,000 as a result of an increased number of contracted grants and corporate contribution agreements supporting current work plans. Interest charges increased by $1.3-**million** during the current quarter, as a result of imputed non-cash charges of $700,000 in respect of TBF's refinery lease, an increase of $300,000 in accrued interest related to the DCF credit facility, and $400,000 related to the amortization of warrants issued to DCF in connection with the credit facility.

The total comprehensive loss for the quarter was $4.8-**million**. This comprised the $5.5-**million** loss for the quarter, which was largely offset by a $700,000 net positive adjustment from comprehensive loss.

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