

HD Press Release: LEC provides Corporate Update & Reports Fiscal 2014 Third Quarter Results

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VANCOUVER, April 2, 2014 /CNW/ - Lignol **Energy** Corporation (TSXV: LEC) ("LEC" or the "**Company**"), an emerging producer of biofuels, biochemicals and renewable materials, today provided a corporate update to shareholders that it is working with its financial advisors to establish the terms of a financing which it needs to complete within the next month, and announced its unaudited consolidated financial results for the three months and nine months ended January 31, 2014 (all figures in Canadian dollars, unless otherwise noted).

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 ("TBF")

In February 2014, LEC completed the **acquisition** of 100% 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 funding 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 ("Milio") who 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:

1. Production of high quality biodiesel and glycerine from a range of low cost feedstocks
2. A robust feedstock supply chain with multiple sources of environmentally certified waste feedstocks

3. 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:
 - a. International Sustainability and Carbon Certification ("ISCC") for sales at premium prices into the European market
 - b. US Environmental Protection Agency ("EPA") approval as a Renewable Identification Number ("RIN")-generating foreign producer for exports to the United States

Australian Renewable Fuels ("ARW")

LEC is currently the largest single direct shareholder in ARW with an ownership interest of 21%. LEC does not have any influence over the affairs of ARW and does not have **board** representation. ARW is listed on the ASX and has the trading symbol: ARW.

ARW publishes accounts on a half-yearly basis. ARW's Interim Financial Report for the half year ended 31 December 2013 stated that the **company** had made a net loss after tax of A\$2.3 **million** compared with a profit of A\$1.4 **million** in the same period in 2012. The share price of ARW has declined considerably over the past year.

We continue to be optimistic that **commercial** synergies would be worth developing with ARW and our other Australian biodiesel interests, however to date we have 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 ("APMEA") 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% interest in Neutral Fuels Parent **Company** ("NFPC") and a 51% interest in Neutral Fuels (Melbourne) Pty Ltd. ("NF Melbourne"), 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 roll out 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 underway 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 roll-out of the McDonald's biodiesel program. As announced on November 13, 2013, LEC had planned to increase its ownership of NFPC from 20% to 40% 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")

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(TM) organosolv pre-treatment 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(TM) 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 January 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 January 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. ("DCF") for up to \$12.5 **million**, as further described in Note 6 to the **Company**'s financial statements. At January 31, 2014 \$11.785 **million** had been drawn on the credit facility which is included in the negative working capital amount of \$13.3 **million**, described above.

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The **Company** needs to raise capital in order to fund 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, amongst 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 advisors 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 organisations, 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 twelve 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 Q4 of the current fiscal year. The ability of the **Company** to continue as a going concern is dependent upon its ability to continue to fund 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 & Analysis of Financial Condition and Results from **Operations** that is available on the **Company**'s website, www.lignol.ca or at www.sedar.com under the **Company**'s profile.

Lignol's complete financial statements for the three and nine month periods ended January 31, 2014 and the related Management's Discussion & Analysis of Financial Condition and Results from **Operations** are available at the **Company's** website, www.lignol.ca, or at www.sedar.com 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% 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 A\$2 **million** tranche of a A\$4.07 **million** loan to Neutral Fuels which provided LEC with a 20% interest in NFPC and a 51% interest in NF Melbourne with effect from November 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 Limited

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 ("ISCC") and US Environmental Protection Agency ("EPA") approval as a Renewable Identification Number ("RIN")-generating foreign producer for its Darwin biodiesel plant, paving the way for exports to markets in Europe and the US.

- Initiated discussions which resulted in the signing a formal Memorandum of Understanding with Milio International ("Milio") for the development of a joint venture ("JV") on February 13, 2014. Under the terms of the planned JV, it is anticipated that Milio will fund 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 funding will potentially provide working capital funding of up approximately US\$25 **million**. At full production Milio will provide funding for up to 120,000 tons of feedstock per year and will receive 25% 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 funding 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 Limited

ARW publishes accounts on a half-yearly basis. ARW's Interim Financial Report for the half year ended 31 December 2013 stated that the company had made a net loss after tax of A\$2.3 million compared with a profit of A\$1.4 million in the same period in 2012.

As of January 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 & Neutral Fuels Melbourne Pty Limited

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 roll out 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 underway in two other countries in the region.

Lignol Innovations Limited

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 January 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 January 31, 2014 ("Q3 FY14"), the Company reported a loss of \$5.5 million, an increase of \$3.8 million over the three month period ended January 31, 2013 ("Q3 FY13"). This translated to a loss of \$0.04 per share (basic and fully diluted) in Q3 FY14, compared with a loss of \$0.01 per share in Q3 FY13. The increase was caused by a \$3.1 million charge in Q3 FY14 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 \$0.6 million which related to the impact of foreign exchange on the translation of certain TBF assets.

Research and development expenses increased by \$0.2 million as a result of the consolidation of \$0.3 million in TBF related plant development expenses less a \$0.1 million reduction in lignin development expenses incurred by LIL. General and administrative expenses were unchanged at \$0.8 million in both quarters. LIL's government grant receipts increased by \$0.4 million 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 \$0.7 million in respect of TBF's refinery lease, an increase of \$0.3 million in accrued interest related to the DCF credit facility, and \$0.4 million 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 is comprised of the \$5.5 million loss for the quarter, which was largely offset by a \$0.7 million net positive adjustment from comprehensive loss.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

Caution concerning forward-looking statements:

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Certain statements contained in this document may constitute forward-looking information within the meaning of applicable securities laws. Such forward-looking statements or information include, without limitation, statements or information about LEC's ability to complete discussions with investment advisors to establish the terms of a financing and to complete such financing within the next month, LEC's ability to

complete its transition from a technology developer to an owner and operator of **commercial** biorefining assets, to restart the Darwin biodiesel plant and to subsequently upgrade the plant with a new pretreatment facility and to use new catalysts so as to allow it to process lower cost feedstocks, for TBF to establish in collaboration with Milio International robust sales channels for off-takes of biodiesel into multiple export markets in addition to local sales, TBF's ability to conclude and enter into definitive agreements regarding the formation of a joint venture to secure feedstock to be funded by Milio, to generate **commercial** synergies with LEC's Australian biodiesel interests and ARW, to generate cash flow from the operation of the TBF plant, for Neutral Fuels customer volumes to increase and to generate additional business, to successfully roll-out its used cooking **oil** to biodiesel program in key locations across the APMEA regions, its ability to complete a review of the business model and to raise the necessary capital to meet the requirements of the revised business plan, to commercialize both the biorefining technology and the intellectual **property** of LIL, LEC's ability to invest in, or otherwise obtain, **equity** interests in **energy** related projects which have potential synergies with LEC and which have the potential to generate near term cash flow, LEC's ability to continue as a going concern and to raise additional financing to fund the restart of the Darwin plant and to fund the **operations** of LEC and its affiliates, LEC's ability to repay amounts owing to DCF under the revolving credit agreement, LIL's ability to satisfy certain project deliverables and related funding conditions from existing and potential future government grants, obtaining strategic partnership investments and government funding for initial **commercial** projects. Often, but not always, forward looking statements or information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes" or variations of such words and phrases or words and phrases that state or indicate that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Such statements or information reflect LEC's current views with respect to future events and are subject to certain risks, uncertainties and assumptions including, without limitation, LEC's ability to raise additional capital to fund **operations** and to support the capital requirements of its affiliates, the requirements of the potential effect of changes in government policy relating to the environment, and incentives for renewable fuels, the potential impact of changes in the prices of feedstock and the market price of liquid fuels including biodiesel, ethanol and renewable chemicals, the ability of LEC and its affiliates to generate future profits and to pay dividends, and to meet increasing regulatory requirements, LEC's ability to divest the ARW ordinary shares due to modest trading volumes, LIL's ability to finance and complete the development of a **commercial** project, LIL's ability to develop products and to obtain off-take agreements, LEC's reliance on publically available information of ARW in its evaluation of its **acquisition** of shares in ARW, the potential fluctuation of biodiesel and feedstock prices and their impact on ARW, the effect of changes in government policy relating to the environment, and incentives for renewable fuels, the ability to meet relevant local and international regulatory requirements.

Many factors could cause LEC's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements or information, including among other things, financial market conditions which will impact LEC's ability to finance its **operations** and to meet future capital and investment requirements, the demand for the market price of liquid fuels including gasoline, biodiesel, ethanol, the market price and demand for renewable chemicals, risks relating to the protection of technology from infringement and those risk factors which are discussed elsewhere in documents that LEC files from time to time with securities and other regulatory authorities. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements or information prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. Except as required by law, LEC expressly disclaims any intention or obligation to update or revise any forward looking statements and information whether as a result of new information, future events or otherwise. All written and oral forward-looking statements and information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements.

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