Leaf Clean Energy Company

Annual Report

For the year ended 30 June 2016

Contents

Management and administration

Directors	Mark Lerdal (executive chairman) Stephen Coe (non-executive director) Peter O'Keefe (non-executive director)
Administrator	EPE Administration Limited Audrey House 16-20 Ely Place London EC1N 6SN
Nominated Advisor, Broker	Cenkos Securities plc 6.7.8 Tokenhouse Yard London EC2R 7AS
Auditors	KPMG PO Box 493 Century Yard, Cricket Square Grand Cayman KY1-1106 Cayman Islands
Depositary, Registrar	Computershare Investor Services plc P.O. Box 82 The Pavilions Bridgewater Road Bristol BS99 6ZZ
Solicitors	Gowling WLG 4 More London Riverside London SE1 2AU Wilson Sonsini Goodrich & Rosati 1700 K Street, NW Fifth Floor Washington, D.C. 20006-3817 USA
Registered Office	PO Box 309 Ugland House George Town Grand Cayman KY1-1104 Cayman Islands

Biographies of the directors

Mark David Lerdal (executive chairman)

Mark David Lerdal was appointed as chairman of Leaf Clean Energy Company in April 2014. From 2009 to December 2015, he was a managing director of MP2 Capital, LLC, a developer, owner and operator of solar generation assets since 2009. From September of 2011 to February of 2013, Mr. Lerdal served as president of Hydrogen Energy California, a developer of a carbon capture and sequestration facility. Prior to that time, Mr. Lerdal was a managing director at KKR Finance in its debt securities division. He has been active in the renewable energy business for 30 years as an investor, operating executive and attorney. Mr. Lerdal also serves as a non-executive board member at Trading Emissions and Onsite Energy Corporation.

Stephen Charles Coe (non-executive director, chairman of audit committee)

Stephen Charles Coe was appointed as a non-executive director of Leaf Clean Energy Company in April 2014. He qualified as a Chartered Accountant with Price Waterhouse Coopers in 1990. From 1997 to 2006 he was a director of the Bachmann Trust Company Limited and managing director of Bachmann Fund Administration Limited. Between 2003 and 2006, Stephen was managing director of Investec Administration Services Limited and of Investec Trust (Guernsey) Limited prior to becoming self-employed in 2006, providing director services to financial services clients. Currently, Stephen sits on the board of a number of companies listed on AIM and on the Main Market of the LSE, including Raven Russia Limited, Weiss Korea Opportunities Fund Limited and European Real Estate Investment Trust Limited. He resides in Guernsey.

Peter O'Keefe (non-executive director)

Peter O'Keefe is a professional in the financial services industry, an advisor to both privately owned & publicly traded companies and an advisor to one of our nation's leading cyber-security consulting companies. He is a recognized national political operative who served as a liaison to the business community in the Clinton White House.

Peter is a director on the board of regulatory compliance services company, Regscan Inc. Previously he worked at Carret Asset Management, a privately owned investment advisory firm, where he was a registered professional with the National Association of Securities Dealers holding both series 7 and 63 licenses. Peter serves as a member of Leaf Clean Energy Company's audit and remuneration committees.

Chairman's statement

Dear Shareholder:

Current net asset value ("NAV") on 30 June 2016 was $106.3 million, $13.9 million lower than on 30 June 2015. The reduction in the NAV resulted from a $9.8 million return of cash to the shareholders via the October 2015 redemption, and the comprehensive loss for the period of $4.2 million. The comprehensive loss consisted of a $4.5 million gain on revaluation in the carrying value of the portfolio companies, offset by $2.4 million of administration expenses, $1.7 million in transaction related costs primarily associated with the litigation against Invenergy, and $3.6 million and $0.5 million of taxation expense and incentive plans expense provision, respectively, in each case resulting from the increase in the carrying value of the investments. At the end of the period, $6.0 million of Leaf's NAV was held in cash and $115.7 million in investments. NAV per share for the Leaf Group was 89.98 cents or 67.89 pence at the period-end exchange rate of $1.33/£.

As I told you in my last Chairman's Statement, the primary source of return to shareholders will be derived from Leaf's investment in Invenergy Wind LLC, ("Invenergy"). In December 2015, as previously announced, Leaf filed a lawsuit in Delaware Court of Chancery against Invenergy alleging, in part, that Invenergy breached the Third Amended and Restated Limited Liability Company Agreement governing the membership interests in Invenergy (the "Operating Agreement"). Leaf alleged that Invenergy was required to either obtain Leaf's consent to a sale of assets or, absent such consent, make a payment to Leaf upon the closing date of the sale.

In April 2016, Leaf filed a motion for partial judgment on the pleadings with respect to its claim that Invenergy breached the Operating Agreement. On June 30, 2016, the court granted the motion. The court's ruling did not determine the amount of damages to which Leaf is entitled, which will require further proceedings. Such further proceedings are ongoing. Leaf believes the damages, pursuant to a formula contained in the Operating Agreement, were $126.1 million on December 15, 2015, the date of the breach. Leaf believes such damages should be reduced by the $3.9 million previously reported tax distribution from Invenergy. Leaf also believes that, if it prevails in the litigation, it will be entitled to interest on the judgment at the Delaware statutory rate of interest of 6%, compounded quarterly, from the date of the breach. Because of the inherent risks associated with litigation, and collection if Leaf prevails, together with income taxes and transaction expenses associated with the judgement, the Board of Directors has valued the investment in Invenergy at $99.1 million as at June 30, 2016, and this is the value reflected in the Company's NAV of $106.3 million.

Invenergy disputes that Leaf is entitled to the damages Leaf is seeking and believes that Leaf is entitled, at most, to nominal damages. Invenergy is also asserting that any obligation it owes to Leaf is excused because of the put/call process described in the interim statements. Invenergy called Leaf's interest in Invenergy on December 28, 2015. On the same day Leaf put its interest to Invenergy. Each party appointed a third party appraiser to value Leaf's stake in Invenergy. The results were $73.1 million (from the appraiser appointed by Leaf) and $36.4 million (from the appraiser appointed by Invenergy). The next step in the put/call process is for Leaf and Invenergy to agree on a third appraiser. It is Leaf's position that the put/call process is not relevant because the above mentioned breach occurred prior to the exercise of either the put or the call.

If Leaf does not prevail in the litigation, the ultimate recovery of the investment in Invenergy will be substantially lower than the expected proceeds from the litigation.

Given the uncertainty on the outcome of the litigation KPMG has not been able to obtain sufficient, appropriate audit evidence over the fair value of our investment in Invenergy. Further, because of the significance of Invenergy to the Company's portfolio, they have not been able to express an opinion on the consolidated financial statements. The Leaf Board is not aware of any other matters arising from their audit process which would have resulted in a qualified audit opinion.

Description of projects

Invenergy Wind LLC ("Invenergy"). Invenergy develops, owns, and operates wind power generation facilities and storage solutions in North America and Europe. During the fiscal year, Invenergy completed the sale of 832 megawatts of wind power generation facilities to TerraForm Power for approximately $2 billion. Invenergy also continued its expansion efforts having placed into service several projects with aggregate capacity exceeding 500 megawatts. Additionally, Invenergy expanded its business into a new market, Uruguay, with a strategic acquisition from Abengoa.

Vital Renewable Energy Company ("VREC"), the owner of a sugar-cane-based facility in Brazil which produces hydrous ethanol and VHP sugar, recorded a strong 2015/2016 crushing season having achieved or exceeded its operational and financial goals for the crushing season. VREC has commenced the 2016/2017 crushing season having successfully completed its off-season maintenance program and is now on target to achieve another record year of crushing and financial results based on its performance for the period ending June 30, 2016. While VREC continues to face headwinds driven by adverse macro-economic and credit market conditions in Brazil, it is benefiting from much stronger sugar prices as a result of the deficit in the supply of the commodity in the global markets.

Chairman's statement (continued)

Description of projects (continued)

Lehigh Technologies, Inc. ("Lehigh"), the advanced materials company, improved its market presence amidst the continued difficult commodity price environment and, impressively, grew its customer base even with these commodity headwinds. The company added sales to selected new customers in existing segments, and added customers in the brake pad segment, a new market for Lehigh. Importantly, the company continued to advance its R&D efforts in next-generation products and remains committed to technical leadership in the micronized rubber powder (MRP) markets. After the reporting period, Lehigh completed a strategic milestone with the agreement of a joint venture in Europe and commencement of construction of a MRP production facility in Spain. The company is experiencing strong demand for MRP in Europe, representing significant progress in its geographic expansion plans. Nonetheless, even with these positive steps, Lehigh continues to operate in a competitive environment where the substitute for its products is often a petroleum-derived product.

Energía Escalona ("Escalona"), the hydroelectric project development company based in Mexico City, does not possess a long-term off-take contract, the satisfactory completion of which will be required for Escalona to close debt financing and commence construction. Without such a power purchase agreement, either from a private off-taker or a government-sponsored auction, this investment is unlikely to have any value.

Continued operations

The Board of Leaf continues to look for opportunities to realise the value of the remaining investments. As described above, it has taken action with respect to the Invenergy investment. In the last two Chairman's Statements we predicted it would take at least until the end of 2017 to realize the value of the remaining investments. Your board continues to believe in that timing, but is willing to be patient with regard to VREC and Lehigh, albeit with a reduced expense structure at Leaf. As to Invenergy, Leaf possesses the financial resources, and the support of the major shareholders, to pursue the litigation to its conclusion.

Mark Lerdal
Chairman

28 September, 2016

Management report

Overview

During the year ended 30 June 2016, Leaf's management continued its work implementing Leaf's orderly realisation strategy (see Strategy below). Throughout the period, the management team remained focused on portfolio management and orderly realisation activities, with due attention to maximizing realisation value.

These activities included working with Leaf's legal counsel in pursuing the breach of contract claim filed by Leaf against its investee, Invenergy, and supporting the put/call appraisal process with Invenergy, while also working on post-closing monitoring activities relating to the sales of the biomass power plants Multitrade Telogia, LLC (MT) and Multitrade Rabun Gap, LLC (MRG), and the landfill gas portfolio owned by Johnstown Regional Energy, LLC (JRE), all of which closed prior to 30 June 2015, and the conclusion of the sale of SkyFuel, Inc., which occurred during the period on 12 August 2015.

Following the sale of SkyFuel, Leaf's portfolio consists of four remaining investments: Invenergy, VREC, Lehigh, and Escalona. Leaf is a minority holder in all of these investments with the exception of Escalona.

Strategy

The Leaf Group's investment strategy is an orderly realisation and return of capital to the shareholders, which will occur on an asset-by-asset basis in timeframes appropriate for each asset. The Leaf Board at its discretion will balance the goal of returning capital expediently to investors with the goal of maximising the realisation value of the investments.

Leaf's remaining holdings are all in the equity of unlisted companies. Therefore, realisations of these investments require the cooperation of the investee companies and of other investors as well as Leaf. In addition, the individual circumstances and market conditions surrounding each investment must be taken into account, affecting the timescale before which a particular investment can be realised. This means that some investments may be considered appropriate for sale in the short term, while others may be held for a longer period.

Leaf will not invest in any new portfolio companies, but may make additional investments in existing portfolio companies where required to preserve or enhance the realisation value of these investments.

Financial highlights

Below is a summary of financial highlights across the Leaf portfolio during the one-year period ended 30 June 2016:

Invenergy-related highlights

- On 21 December 2015, Leaf filed a complaint against Invenergy, in the Delaware Court of Chancery ("DCC"), alleging that Invenergy breached provisions of both Invenergy's operating agreement (the "Operating Agreement") and note purchase agreement, by failing to either obtain Leaf's consent to its sale of 832 megawatts of wind power generation facilities to TerraForm Power for approximately $2 billion (the "TerraForm Transaction") prior to its consummation or, absent such consent, make a payment to Leaf upon the closing of the sale, and seeking payment by Invenergy to Leaf of approximately $126 million.

- On 28 December 2015, Invenergy exercised its rights under the Operating Agreement to redeem the LLC membership units owned by Leaf, and Leaf exercised its right to put these units to Invenergy.

- On 7 January 2016, Leaf received a $3.9 million cash distribution from Invenergy pursuant to the terms of Invenergy's Operating Agreement.

- In connection with the litigation, in April 2016, Leaf filed a motion for partial judgment on the pleadings with respect to its claim that Invenergy breached the Operating Agreement.

- On 30 June 2016, the DCC ruled that because Invenergy did not obtain Leaf's prior consent to the closing of the TerraForm Transaction, Invenergy breached the Operating Agreement by not "paying upon closing to Leaf cash proceeds equal to or more than its applicable Target Multiple". The court's ruling did not determine the amount of damages to which Leaf is entitled. The ruling can be downloaded at the following URL: http://www.leafcleanenergy.com/media-relations/download-centre/

Other highlights

- Leaf returned $9.8 million (£6.4 million) to Leaf's shareholders via a compulsory redemption, completed on 9 October 2015.

- Leaf received cash proceeds of $2.5 million from the sale of SkyFuel.

Other highlights (continued)

- Leaf collected a $1.5 million receivable relating to the sale of JRE and a $148 thousand cost reimbursement receivable from SkyFuel.

- Leaf made an additional $366 thousand direct equity investment in VREC.

- In January 2016 Leaf received its portion ($178 thousand) of funds released from the indemnity escrow in relation to the sale of its membership units in Multitrade Telogia, LLC, as the indemnification period had expired without any claims.

Financial performance

The Leaf Group's total net asset value ("NAV") on 30 June 2016 was $106.3 million, $13.9 million lower than on 30 June 2015. This change resulted from the $9.8 million return of cash to the shareholders via the October 2015 redemption, $3.6 million of taxation expense associated with the increase in the net deferred tax liability, administrative and transaction-related expenses of $2.4 million and $1.7 million respectively, $0.5 million in incentive plans expense primarily associated with an increase in the provision for incentive plans payouts, and a $0.5 million foreign exchange loss resulting from the Brexit-induced drop in the US$/GBP exchange rate, partly offset by a $4.5 million gain on investments mostly attributable to unrealised gain on revaluation.

The taxation and incentive plans expenses resulted directly from the revaluation of the investments, with the exception of $126 thousand of incentive plans payments paid out in relation to the October 2015 redemption. Based on the increase in the investment valuations and revised internal cash forecasts, Leaf has increased its provision for future pay outs under the Company's incentive plans to $3.4 million. In addition, Leaf increased its net deferred tax liability to $11.8 million, based on movements in the valuations of the investments. The transaction-related expenses resulted primarily from legal costs associated with prosecuting Leaf's complaint against Invenergy, and professional services costs relating to the Invenergy put/call appraisal process.

At the end of the period, $6.0 million of Leaf's NAV was held in cash and $115.7 million in investments.

NAV per share for the Leaf Group was 89.98 cents or 67.89 pence at $1.3254 to the GBP1. This was a decrease of 3.4% for the year from 30 June 2015. The decrease was primarily due to the increase in the tax provision (-5.6%), administration expenses (-2.0%), transaction-related expenses (-1.5%), the increase in the incentive plans provision (-1.2%), and the foreign exchange loss (-0.4%), partly offset by the gain on investments (3.8%) and the redemption (0.4% net favourable effect of decrease in shares outstanding and decrease in cash).

Leaf's administrative expenses of $2.4 million for the one-year period ended 30 June 2016 were slightly above Leaf's $2.3 million budget. The overage was due primarily to unbudgeted expenses for professional services required to value Leaf's investment in Invenergy, without which Leaf would have been significantly under budget. Note that, due to uncertain timing and amounts the budget did not include transaction-related costs or payments under the Company's incentive plans. Leaf has not accrued anything for future transaction costs. Leaf's budget for administration expenses for the next fiscal year ending 30 June 2017 is $1.9 million.

Portfolio update

Key updates regarding Leaf's portfolio companies during the interim report period included the following:

<u>Invenergy Wind LLC (Invenergy)</u>

Invenergy, North America's largest independently owned wind power generation company, commenced commercial operations at its Rattlesnake, Buckeye, Prairie Breeze II and Gorzyca wind energy projects as well as Beech Ridge energy storage project during the period, increasing its installed capacity by approximately 540 megawatts. The Rattlesnake project was subsequently included as part of the sale to Terraform Power. In addition, the company completed project financings for several wind energy projects including Campo Palomas, Wake Wind and Gunsight. Invenergy has now put into service almost 50 wind farms in the United States, Canada and Europe, totaling over 4,000 megawatts.

In addition to developing and converting on its strong and diversified pipeline of wind power projects, Invenergy has also opportunistically undertaken certain strategic acquisitions to drive its growth across its existing markets as well as market entry into new markets. In early 2016, Invenergy acquired the Campo Palomas project from the Uruguayan affiliate of Abengoa further extending the company's footprint across the Americas.

Management report (continued)

Portfolio update (continued)

Vital Renewable Energy Company (VREC)

VREC, a renewable energy company focused on the development of sugar-cane-based ethanol facilities and electricity generation in Brazil, as well as related infrastructure projects, achieved a record 2015/2016 crushing season with growth of approximately 10% over the prior period. The company has continued to progress its expansion efforts with capital investments allocated to areas deemed to be a key priority by the business particularly as it relates to VREC's industrial expansion. The challenging macro and credit market conditions have compelled the company to prioritize its expansion efforts, focusing on incremental production of sugar and product storage. GDP decreased 3.8% in 2015 and 2016 is expected to witness similar levels of contraction. Inflation continues to escalate and interest rates have risen sharply in the country; VREC is managing to navigate these challenging local market conditions taking advantage of historically high prices offered to its VHP sugar production in the international markets.

Additionally, ethanol prices have posted strong gains during the current season. VREC also continues to enhance its proprietary agricultural program and has significantly advanced the development of a biomass cogeneration project at its Bom Sucesso facility. Both of these initiatives, combined with a solid operational performance and investments to increase its sugar production are expected to enhance the value of the business.

Lehigh Technologies, Inc. (Lehigh)

Lehigh, the advanced materials company, continued to navigate the challenging commodity market environment and, impressively, grew its customer base in existing and new segments. To-date, Lehigh has successfully managed commodity headwinds due to the growing customer interest in sustainability, new customer additions, product innovation, and improved plant efficiency. The company added customers in existing segments and expanded its market presence with the addition of a new segment for the company: the brake pad market. Lehigh has also continued to execute on its geographic expansion strategy. Specifically, Lehigh completed a strategic milestone after the current reporting period with the agreement of a joint venture in Europe and commencement of construction of a MRP production facility in Spain. The company has been growing its sales in Europe since 2013 and expects to supply customers in the region from the Spain plant beginning in 2017. Overall, Lehigh has managed the current commodity and macro environment well, and remains positioned for growth in customers, segments, and geographies.

Energía Escalona (Escalona)

Escalona, the hydroelectric project development company based in Mexico City, undertook several steps to improve the competitiveness of its planned facility amidst the significant declines in electricity prices in Mexico in 2015 including binding bids for the engineering, procurement, and construction (EPC) contract at prices materially below its prior EPC contract, and commencing an application to increase in its allowed water usage rights, Importantly, the satisfactory completion of a power purchase agreement (PPA) with an off-taker is required before Escalona will be able to close debt financing and commence construction. Leaf continues to review its strategic options for this asset in light of the unfavourable power price changes in 2015, and ongoing efforts to obtain a PPA for the project.

SkyFuel, Inc. (SkyFuel)

On 12 August 2015, SkyFuel, the solar thermal power technology company, announced that it had been acquired by Chinese-based Sunshine Kaidi New Energy Group ("Kaidi") of Wuhan, China, through their US subsidiary Harvest International New Energy, Inc.

Outlook

In the coming months the Leaf Management team will continue its focus on achieving realisations of the assets to enable additional future distributions to the shareholders, with careful attention paid to the appropriate timing required for each investment to maximise realisation value. While the timing is uncertain for the realisation of a given investment, it is likely to take until at least the end of calendar 2017 to realise the remaining investments. As a result, the Leaf Board and management have maintained and will continue to maintain an appropriate cash balance to ensure that Leaf can continue to execute Leaf's strategy.

28 September 2016

Report of the directors

The directors hereby submit their annual report of the audited consolidated financial statements of Leaf Clean Energy Company and its subsidiaries (together the "Leaf Group") for the financial year ended 30 June 2016.

The Company

Leaf Clean Energy Company ("Leaf") was incorporated and registered in the Cayman Islands on 14 May 2007. Leaf was established to invest in clean energy projects, predominantly in North America. Clean energy includes activities such as the production of alternative fuels, renewable power generation and the use of technologies to reduce the environmental impact of traditional energy. The investments of Leaf will be realised in an orderly and expedient manner, that is, with a view to achieving a balance between: (i) returning cash to shareholders at such times and from time to time and in such manner as the board may (in its absolute discretion) determine; and (ii) maximising the realisation value of Leaf's investments. In light of the realisation strategy, there will be no specific investment restrictions applicable to Leaf's portfolio going forward, except that Leaf will not make any investment in a new portfolio company.

Results and dividends

The results and financial position of the Leaf Group for the year ended 30 June 2016 are set out in the attached consolidated financial statements.

The directors do not intend to declare a dividend at this time (2015: $nil).

Redemption

As permitted under the modifications to Leaf's memoranda and articles passed by the shareholders at the 1 July 2014 EGM, the directors approved a 5 pence per share ($10.1 million, 2015: $nil) compulsory redemption, which was completed on 9 October 2015.

Directors and directors' interests

The directors during the year were:

Mark Lerdal (executive chairman)
Stephen Coe (non-executive director)
Peter O'Keefe (non-executive director)

Details of interests

The interests of the directors in the share capital of Leaf as at 30 June 2016 are set out below:

Name	2016 No. of ordinary shares	2015 No. of ordinary shares
Peter O'Keefe	46,807	51,000
Stephen Charles Coe	20,000	-

Notified shareholdings

As at the date of this report, the following interests in the ordinary shares of Leaf of 3% and over of the issued share capital had been notified to Leaf:

Name	No. of shares	% of issued share capital
INVESCO Asset Management Limited	47,197,428	39.94%
Crystal Amber Advisers (UK) LLP	35,326,462	29.90%
Weiss Asset Management	22,482,050	19.03%
JPMorgan Asset Management U.K. Limited	3,784,846	3.20%

Report of the directors (continued)

Independent auditors
Our Auditors, KPMG, being eligible have expressed their willingness to continue in office.

Corporate governance
The directors have taken measures to ensure that the Leaf Group complies with the Quoted Companies Allliance (QCA) Guidelines for AIM Companies to the extent they consider appropriate, taking into account the size of the Leaf Group and nature of its business.

Board of directors
Leaf has an experienced board which is currently comprised of three directors, Mark Lerdal is the executive chairman of the board, Stephen Coe and Peter O'Keefe are non-executive directors.

Audit committee
An audit committee has been established to operate with effect from Admission. The current audit committee is chaired by non-executive director Stephen Coe. Mr. Coe qualified as a Chartered Accountant with PriceWaterhouseCoopers in 1990. Mark Lerdal, Leaf's executive chairman, and non-executive director Peter O'Keefe are the other members on this three-member committee. It meets whenever there is business to discuss and at least twice each year. The audit committee is responsible for ensuring that the financial performance of the Leaf Group is properly monitored, controlled and reported on. It also communicates with the auditors and reviews the auditors' reports relating to accounts and internal control systems.

Remuneration committee
Leaf has established a remuneration committee, comprising Mark Lerdal and Peter O'Keefe. The remuneration committee meets at least once a year and reviews the level of directors' fees.

Leaf takes all reasonable steps to ensure compliance by the directors, the directors' families and any employees with the provisions of the Market Abuse Regulations (MAR) of the European Union and the AIM Rules relating to dealings in securities of Leaf and has adopted the Model Code under the FCA's Listing Rules for this purpose.

Nomination committee
Leaf does not currently consider it necessary to establish a nomination committee.

Internal control
There are inherent limitations in any system of internal control and such a system can provide only reasonable, but not absolute, assurances against material misstatement or loss. The Leaf Group does not have its own internal audit function but places reliance on compliance and other control functions of its service providers.

Where necessary the board obtains specialist advice from advisers.

On behalf of the board

Mark Lerdal
Chairman
28 September 2016

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the directors' report and the consolidated financial statements in accordance with applicable law and regulations. In addition, the directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards.

The consolidated financial statements are required to give a true and fair view of the state of affairs of the Leaf Group and the profit or loss of the Leaf Group for that year.

In preparing these consolidated financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Financial Reporting Standards; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Leaf Group will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Leaf Group's transactions and disclose with reasonable accuracy at any time its financial position. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Leaf Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on Leaf's website. Legislation governing the preparation and dissemination of consolidated financial statements may differ from one jurisdiction to another.

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INDEPENDENT AUDITORS` REPORT TO THE DIRECTORS

We were engaged to audit the accompanying consolidated financial statements of Leaf Clean Energy Company (the "Company") which comprise the consolidated statement of financial position as of 30 June, 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

At June 30, 2016, the Company holds an investment in Invenergy Wind LLC ("Invenergy") with a carrying value of US$99,100,000 that is subject to litigation proceedings as described in note 23, the outcome of which is uncertain. Due to this uncertainty, we were not able to obtain sufficient, appropriate audit evidence over the fair value of the Company's investment in Invenergy. As a result of this matter, we were unable to determine whether any adjustments might be necessary to the amounts shown in the consolidated financial statements for the Company's investment in Invenergy and the elements making up the consolidated statements of comprehensive income and changes in equity as at and for the year ended 30 June, 2016.

Disclaimer of opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these consolidated financial statements.

KPMG

September 28, 2016

KPMG, a Cayman Islands partnership and a member firm of the
KPMG network of independent member firms affiliated with KPMG
International Cooperative ("KPMG International"), a Swiss entity.

Leaf Clean Energy Company

Consolidated statement of comprehensive income for the year ended 30 June 2016

	Note	**Year ended 30 June 2016 US$'000**	**Year ended 30 June 2015 US$'000**
Interest income on cash balances		1	1
Interest income on investments at fair value through profit or loss		-	295
Net gain on investments at fair value through profit or loss	13.1, 23	4,523	18,445
Net foreign exchange loss		(510)	(6)
Gross portfolio return		**4,014**	**18,735**
Administration expenses	7	(2,371)	(2,637)
Transaction-related costs	8	(1,739)	(98)
Incentive plans expense	9	(526)	(3,000)
(Loss)/Gain before taxation		**(622)**	**13,000**
Taxation	19	(3,553)	(8,474)
Total (loss)/gain and total comprehensive (loss)/gain for the year		**(4,175)**	**4,526**
Basic and diluted gain per share (cents)	11	**(3.45)**	**3.52**

The accompanying notes form an integral part of these consolidated financial statements.

Leaf Clean Energy Company

Consolidated statement of financial position as at 30 June 2016

	Note	**Year ended 30 June 2016 US$'000**	**Year ended 30 June 2015 US$'000**
Assets			
Investments at fair value through profit or loss	13.1, 23	115,700	117,320
Deferred tax assets	3.7,19	9,339	9,884
Property, plant and equipment		2	5
Total non-current assets		**125,041**	**127,209**
Trade and other receivables	15	510	2,062
Restricted cash	6,16	30	30
Cash and cash equivalents	16	5,947	12,522
Total current assets		**6,487**	**14,614**
Total assets		**131,528**	**141,823**
Equity			
Share capital	18	27	28
Share premium	18	297,046	306,809
Retained losses		(190,746)	(186,571)
Total equity		**106,327**	**120,266**
Liabilities			
Deferred tax liabilities	3.7,19	21,107	18,103
Provision for future incentive plans payouts	9	3,400	3,000
Total non-current liabilities		**24,507**	**21,103**
Trade and other payables	17	694	454
Total current liabilities		**694**	**454**
Total liabilities		**25,201**	**21,557**
Total equity and liabilities		**131,528**	**141,823**
Net asset value per share (cents)	5	89.98	93.41

The accompanying notes form an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the board of directors on 28 September 2016 and signed on their behalf by:

Mark Lerdal
Executive Chairman

Stephen Coe
Non-executive Director

Leaf Clean Energy Company

Consolidated statement of changes in equity for the year ended 30 June 2016

	Share Capital	Share Premium	Retained Losses	Total Equity
	US$'000	US$'000	US$'000	US$'000
Balance at 1 July 2014	28	306,809	(191,097)	115,740
Total comprehensive gain for the year	-	-	4,526	4,526
Balance at 30 June 2015	**28**	**306,809**	**(186,571)**	**120,266**
Balance at 1 July 2015	28	306,809	(186,571)	120,266
Repayment to shareholders via compulsory redemption	(1)	(9,763)	-	(9,764)
Total comprehensive loss for the year	-	-	(4,175)	(4,175)
Balance at 30 June 2016	**27**	**297,046**	**(190,746)**	**106,327**

The accompanying notes form an integral part of these consolidated financial statements.

Leaf Clean Energy Company

Consolidated statement of cash flows for the year ended 30 June 2016

		Year ended 30 June 2016 US$'000	Year ended 30 June 2015 US$'000
Cash flows from operating activities			
Collection of receivable		1,503	-
Tax refunds, security deposits and cost reimbursements		185	189
Interest received on loans and cash balances		-	323
Incentive Plan Payments		(126)	-
Income tax paid		(242)	(28)
Transaction-related costs paid		(1,404)	(98)
Operating expenses paid		(2,404)	(2,897)
Net cash used in operating activities		**(2,488)**	**(2,511)**
Cash flows from investing activities			
Repayment of capital by investee companies		3,910	2,081
Proceeds from sale of investments		2,643	4,399
Transaction related expenses paid and included in realised loss from sale of investments		-	(207)
Purchase of financial assets at fair value through profit or loss		(366)	(3,280)
Net cash generated from investing activities		**6,187**	**2,993**
Cash flows financing activities			
Repayment to shareholders via compulsory redemption		(9,764)	-
Net cash generated from/(used in) financing activities		**(9,764)**	**2,993**
Net increase/(decrease) in cash and cash equivalents		**(6,065)**	**482**
Cash and cash equivalents at start of the year		12,552	12,071
Effect of exchange rate fluctuations on cash and cash equivalents		(510)	(1)
Cash and cash equivalents at end of the year		**5,977**	**12,552**
Non-cash transactions[1]:			
Derecognition of convertible note investment upon conversion	13.1	(95,000)	-
Recognition of equity investment upon conversion of convertible note	13.1	95,000	-

[1]On 24 September the conversion of the Invenergy Wind, LLC convertible notes held by Leaf into 2.3% of the membership interests (equity) in Invenergy took effect. As a result of this non-cash transaction, Leaf has derecognized the notes and recognized the equity

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 30 June 2016 (continued)

Reconciliation of total (loss)/gain and total comprehensive (loss)/gain for the year to net cash used in operating activities	**Year ended 30 June 2016 US$'000**	**Year ended 30 June 2015 US$'000**
Total (loss)/gain and total comprehensive (loss)/gain for the year	(4,175)	4,526
Adjustments for:		
Increase in deferred tax liability	3,549	8,219
Net foreign exchange loss	510	5
Incentive plans expense	400	3,000
Taxation	7	-
Depreciation expense	2	10
Other movement in FV of investments - reclassification to receivables	-	1,503
Cash interest received on loans in excess of accrued interest	-	27
Other	(50)	(50)
Net unrealised gain on investments at fair value through profit or loss	(4,523)	(18,445)
Operating loss before changes in working capital	**(4,280)**	**(1,255)**
Movement in trade and other receivables	1,552	(1,178)
Movement in trade and other payables	240	(128)
Net cash used in operating activities	**(2,488)**	**(2,511)**

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 30 June 2016

1. Leaf

Leaf Clean Energy Company ("Leaf") was incorporated and registered in the Cayman Islands on 14 May 2007. Leaf was established to invest in clean energy projects, predominantly in North America. Clean energy includes activities such as the production of alternative fuels, renewable power generation and the use of technologies to reduce the environmental impact of traditional energy. The investments of Leaf will be realised in an orderly and expedient manner, that is, with a view to achieving a balance between: (i) returning cash to shareholders at such times and from time to time and in such manner as the board may (in its absolute discretion) determine; and (ii) maximising the realisation value of Leaf's investments. In light of the realisation strategy, there will be no specific investment restrictions applicable to Leaf's portfolio going forward.

The shares of Leaf were admitted to trading on the AIM market of the London Stock Exchange ("AIM") on 28 June 2007 when dealings also commenced.

Leaf's executive chairman, agents, and management team (the latter all employees of Leaf's subsidiary, Leaf Capital Management, LLC) perform all significant functions. Accordingly, Leaf itself has no employees.

The consolidated financial statements as at and for the year ended 30 June 2016 are for the Leaf Group. Refer to note 21.

The consolidated financial statements of Leaf as at and for the year ended 30 June 2016 are available upon request from Leaf's registered office at PO Box 309, Ugland House, George Town, Grand Cayman KY1-1104, Cayman Islands or at www.leafcleanenergy.com.

2. Basis of preparation

2.1 Statement of compliance

Leaf and its subsidiaries' (together the "Leaf Group") consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Leaf has consistently applied the accounting policies as set out in note 3 to all periods presented. There were no new or changes to existing accounting standards that impacted the Leaf Group's financial statements for the year ended 30 June 2016.

These consolidated financial statements were approved by the board of directors on 28 September 2016.

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the investments held at fair value through profit and loss that are measured at fair value in the consolidated statement of financial position.

2. Basis of preparation (continued)

2.3 Functional and presentation currency

The consolidated financial statements are presented in thousands of United States Dollars (“US$”), which is the Leaf Group’s functional currency. All financial information presented in US$ has been rounded to the nearest thousand, except when otherwise indicated.

2.4 Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

The most significant area requiring estimation and judgement by the Directors is the valuation of unquoted investments, see note 13.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

3.1 Financial instruments

(i) Non-derivative financial assets

The Leaf Group classifies non-derivative financial assets into the following categories: investments at fair value through profit or loss and loans and receivables.

The Leaf Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Leaf Group becomes a party to the contractual provision of the instrument.

The Leaf Group derecognises a financial asset when the contractual rights to the cash flows from the instrument expire, or the rights to receive the contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred assets that is created or retained by the Leaf Group is recognised as a separated asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Leaf Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise and settle the liability simultaneously.

Investments held at fair value through profit or loss

The Leaf Group records its investments in equity, loans and similar instruments, at fair value through profit or loss on initial recognition. Attributable transaction costs are recognised in the consolidated statement of comprehensive income as incurred. Gains and losses arising from changes in fair value of investments, including foreign exchange movements, are recognised in the consolidated statement of comprehensive income.

3. Significant accounting policies (continued)

3.1 Financial instruments (continued)

(i) Non-derivative financial assets (continued)

Unquoted investments are valued at fair value using recognised valuation methodologies, based on the International Private Equity and Venture Capital Guidelines, which reflect the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, restricted cash and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents consists of cash balances and call deposits with maturities of one year or fewer from the acquisition date that are subject to an insignificant risk of changes in value, and are used by the Leaf Group in the management of its short-term commitments.

(ii) Non-derivative financial liabilities

The Leaf Group classifies non-derivative financial liabilities into the other financial liability category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

The Leaf Group initially recognises debt securities issued and subordinated liabilities on the date that they originated. All other financial liabilities (including liabilities designated as at fair value through profit or loss) are recognised initially on trade date, which is the date that the Leaf Group becomes a party to the contractual provision of the instrument.

The Leaf Group derecognises a financial liability when the contractual obligations are discharged, cancelled or expire.

Financial liabilities comprise trade and other payables, deferred tax and incentive plans payouts.

Bank overdrafts that are repayable on demand and form an integral part of the Leaf Group’s cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

3.2 Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity.

3 Significant accounting policies (continued)

3.3 Revenue and expense recognition

Interest income is recognised on a time-proportionate basis using the effective interest rate method.

Dividends receivable on equity and non-equity shares, which carry significant equity rights, are recognised as revenue when the shareholders' right to receive payment has been established, normally the ex-dividend date. When no ex-dividend date is available, dividends receivable on or before the year end are treated as revenue for the year. Provision is made for any dividends not expected to be received.

Fixed returns on debt securities and loans are recognised on an effective interest rate basis, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Expenses are accounted for on an accrual basis and are charged to the consolidated statement of comprehensive income. This includes expenses directly related to making an investment which is held at fair value through profit or loss.

Incentive fees have been accrued for as per note 9.

3.4 Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Leaf Group at the exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate on the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the consolidated statement of comprehensive income.

3.5 Dividends payable

Dividends payable are recognised as a liability in the period in which they are declared and approved.

3.6 Earnings per share

The Leaf Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the basic earnings attributable to ordinary shareholders of Leaf by the weighted average number of ordinary shares outstanding during the year, adjusted for any shares held by the Leaf Group. Diluted EPS is determined by adjusting the basic earnings attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for any shares held by the Leaf Group, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

3.7 Income tax expense

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

3 Significant accounting policies (continued)

3.7 Income tax expense (continued)

Deferred tax

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 for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Leaf Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption. Deferred tax assets and liabilities are offset only if certain criteria are met.

United States taxation

Certain of Leaf's investments are in the equity of US companies which are considered to be US Real Property Interests as defined by the US Foreign Investor Real Property Tax Act ("FIRPTA"). Also, certain of Leaf's investments are in US partnership interests. Leaf is subject to US federal taxation under FIRPTA on income attributable to US Real Property Interests and is generally subject to US federal and state income taxation on income earned as a foreign partner of a US partnership.

With respect to such investments, Leaf recognises a deferred tax liability equal to the applicable blended US federal and state tax rates multiplied by the difference between the carrying value of Leaf's investment for financial reporting purposes and the applicable tax base used for applicable US federal and state taxation. Leaf reviews the deferred tax liability in connection with the revaluation process and adjusts accordingly.

Leaf recognises a deferred tax asset with respect to unused taxable losses, to the extent that Leaf will have sufficient future taxable income against which to offset such losses. The tax asset is equal to such unused losses multiplied by the applicable blended US federal and state tax rates. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Cayman Islands taxation

Leaf received from the Governor-in-Cabinet of the Cayman Islands, an undertaking that, for a period of 20 years from 5 June 2007 no laws of the Cayman Islands imposing any tax on profits, income, gains or appreciation shall apply to Leaf and that no such tax or any tax in the nature of estate duty or inheritance tax shall be payable on the shares, debentures or other obligations of Leaf. Under the current Cayman Islands law, no tax will be charged on profits or gains of Leaf and dividends of Leaf would be payable to Shareholders resident in or outside the Cayman Islands without deduction of tax.

3. Significant accounting policies (continued)

3.8 Subsidiaries

Subsidiaries are investees controlled by Leaf. Leaf controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Leaf Board concluded that Leaf meets the definition of an investment entity and measures investments in its subsidiaries at fair value through profit or loss.

These consolidated financial statements include the results of Leaf Capital Management LLC for the year ended 30 June 2016.

3.9 Future changes in accounting policies

IASB (International Accounting Standards Board) and IFRIC (International Financial Reporting Interpretations Committee) have issued the following standards and interpretations with an effective date after the date of these financial statements:

New/Revised International Financial Reporting Standards (IAS/IFRS)	**European Union Effective date** (accounting periods commencing on or after)
IFRS 9 Financial Instruments	Not yet endorsed IASB effective date 1 January 2018

4. Financial risk management

The Leaf Group's investments expose it to a variety of financial risks: market risk (including market price risk, foreign exchange - risk and interest rate risk), credit risk and liquidity risk.

Market price risk

The portfolio companies in which Leaf invests operate in sectors that may be affected by the prevailing prices of electricity, oil, natural gas and other commodities. As energy and fuels derived from non-renewable sources become more expensive or scarce, renewable energy and alternative fuels become more valuable. Conversely, if non-renewable energy and fuels become more abundant or, for other reasons become less expensive, the value of renewable or alternative fuels may be negatively affected. As a result, the performance of the project companies is likely to be dependent upon prevailing prices for these commodities, which have been historically, and may continue to be, volatile and subject to wide variations for a variety of reasons beyond the control of the Leaf Group. These factors include the level of consumer product demand, weather conditions, governmental regulations in producing and consuming countries, the price and availability of alternative fuels, the supply of oil and natural gas, and overall geo-political and economic conditions. Therefore, volatility of commodity prices may adversely affect the value of the Leaf Group's investments.

Leaf does not have any material direct market price risk. Leaf does not manage the market price risk of its investee companies either, relying instead on the management of each investee company to appropriately manage its own risks.

All of the Leaf Group's investments comprise interests in companies which are not publicly traded or freely marketable. The Leaf Group may also be restricted from selling certain securities by contract or regulatory considerations. Such investments may therefore be difficult to value or realise. Any such realisation may involve significant time and expense.

4. Financial risk management (continued)

Market price risk (continued)

The below table summarises the valuation methodologies and key assumptions in deriving the aggregate fair value of the investments as at 30 June 2016 of $115.7 million (2015: $117.3 million):

Name of Investment	Valuation methodology	Significant inputs / assumptions
Invenergy Wind LLC ("Invenergy")	Income approach	Forecast cash flows (damages awarded in lawsuit) discount rate
Vital Renewable Energy Company, LLC ("VREC")	Market value	Choice of comparable companies, publicly available data about operating results
Energia Escalona s.r.l. ("Escalona")	Income approach	Forecast cash flows discount rate
Lehigh Technologies Inc. ("Lehigh")	Income approach	Forecast cash flows discount rate

4. Financial risk management (continued)

Market price risk (continued)

The below table summarises the valuation methodologies and key assumptions in deriving the aggregate fair value of the investments as at 30 June 2015.

Name of Investment	Valuation methodology	Significant inputs / assumptions
Invenergy Wind LLC ("Invenergy")	Market value	Choice of comparable companies, publicly available data about transactions and operating results
SkyFuel Inc ("SkyFuel")	Market value	Transaction terms
Vital Renewable Energy Company, LLC ("VREC")	Market value	Choice of comparable companies, publicly available data about transactions and operating results
Energia Escalona s.r.l. ("Escalona")	Income approach	Forecast cash flows discount rate
Lehigh Technologies Inc. ("Lehigh")	Market value Income approach	Transaction terms and Forecast cash flows Discount rate

Foreign exchange risk

The Leaf Group was exposed to foreign exchange risk with regard to transactions made in Sterling and balances held in Sterling.

An analysis of net assets by currency exposure as at 30 June 2016 is as follows:

	Net Assets US$'000 30 June 2016	Net Assets US$'000 30 June 2015
US Dollars	102,660	120,266
GBP	3,648	-
Euro	19	-
Total	**106,327**	**120,266**

The Leaf Group's investments in VREC and Escalona are exposed to the Brazilian Real and the Mexican Peso, respectively. VREC has primary operations in Brazil with most of its costs (including debt-related costs) and revenues denominated in Reals. The Escalona hydroelectric project is being developed in Mexico, with current and future costs (including debt-related costs) and future expected revenues denominated in Pesos. The Leaf Group does not currently take any measures to hedge against these exposures.

4. Financial risk management (continued)

Interest rate risk

The Leaf Group has no borrowings. As interest rates earned on the Leaf Group's cash balances are minimal, and interest earned on its loans to the portfolio companies are small, there was no material interest rate risk to the Leaf Group as at 30 June 2016 and 2015.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Leaf Group.

The carrying amounts of financial assets, excluding equity investments in portfolio companies, best represent the maximum credit risk exposure at the reporting date. This relates also to financial assets carried at amortised cost, as they have a short term maturity.

At the reporting date, the Leaf Group's financial assets exposed to credit risk amounted to the following:

	Year ended 30 June 2016 US$'000	**Year ended 30 June 2015 US$'000**
Investments at fair value through profit or loss	-	2,450
Trade and other receivables	510	2,062
Cash and cash equivalents	5,977	12,552
Total	**6,487**	**17,064**

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. Management does not expect any counterparty to fail to meet its obligations. No impairment provisions have been made as at the year end and no debtors were past their due date.

Leaf's intermediary subsidiaries are equity investments of the Leaf Group which would not usually be subject to credit risk. However, the purpose of these subsidiaries is to hold the Leaf Group's underlying investments in the investee companies. Portions of the underlying investments are in the form of loans, convertible notes or other instruments that are subject to credit risk, and therefore the value attributable to such instruments is provided in the credit risk table above.

Cash balances are held with P-2* financial institutions.

**- A Moody's rating of Prime-2 (P-2) means that the issuer has a strong ability to repay short-term debt obligations.*

Liquidity risk

Liquidity risk is the risk that the Leaf Group will not be able to meet its financial obligations as they fall due. The Leaf Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet their liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses. The Leaf Group's liquidity position is monitored by Leaf's board of directors.

4. Financial risk management (continued)

Liquidity risk (Continued)

Residual undiscounted contractual maturities of financial liabilities:

30 June 2016	**Less than 1 month US$'000**	**1-3 months US$'000**	**3 months to 1 year US$'000**	**1-5 years US$'000**	**Over 5 years US$'000**	**No stated maturity US$'000**
Financial liabilities						
Trade and other payables	(694)	-	-	-	-	-
Total	**(694)**	**-**	**-**	**-**	**-**	**-**

30 June 2015	**Less than 1 month US$'000**	**1-3 months US$'000**	**3 months to 1 year US$'000**	**1-5 years US$'000**	**Over 5 years US$'000**	**No stated maturity US$'000**
Financial liabilities						
Trade and other payables	(454)	-	-	-	-	-
Total	**(454)**	**-**	**-**	**-**	**-**	**-**

Fair values
All assets and liabilities at 30 June 2016 are considered to be stated at fair value.

5. Net Asset Value per Share

The net asset value per share as at 30 June 2016 is 89.98 cents based on net assets of $106.3 million and 118,162,853 ordinary shares in issue as at that date (2015: 93.41 cents based on net assets of $120.3 million and 128,745,726 ordinary shares).

6. Restricted cash

The restricted cash balance at 30 June 2016 consisted of collateral deposits $30,229 associated with the corporate credit cards for Leaf Capital Management, LLC held by HSBC US.

7. Administration expenses

	Year ended 30 June 2016 US$'000	**Year ended 30 June 2015 US$'000**
Salaries and related costs	849	970
Legal and professional fees [1]	403	296
Directors' remuneration (note 10)	345	345
Other expenses	179	310
Administration fees	175	200
Travel and subsistence expenses	135	144
Rental fees	115	177
Audit fees	60	84
Directors' and officers' insurance expense	61	61
Registrar fees and costs	40	43
Printing and stationery expenses	9	7
Total	**2,371**	**2,637**

[1]Administration expenses do not include transaction related legal or professional services costs, which are reported as transaction related expenses on the condensed consolidated statement of comprehensive income.

8. Transaction-related costs

Leaf does not budget transaction-related costs, due to the unpredictability of their timing and amounts. The amount disclosed for the year ended 30 June 2016 consists primarily of legal costs incurred during the period in connection with the complaint filed on 21 December 2015 by Leaf against Invenergy Wind LLC, and professional services incurred in connection with the put/call appraisal process for Invenergy.

9. Incentive plans expense

The Leaf Board has adopted incentive compensation plans for the Company under which payees will receive incentive payments only when cash is returned to the shareholders. These plans include a sliding scale of incentives. As at 30 June 2016, the Leaf Group updated its prior estimate of the incentive payments to be $3.4 million, using an estimate of total cash that will be returned to the shareholders that is based on the 30 June 2016 net asset value less the estimated cash requirements of the Company in completing the realisation of the investments. Revisions to the estimate of total cash that will be returned to shareholders result in adjustments to the provision for future incentive plans payouts, which are recognised in profit or loss during the period of the adjustment.

10. Directors' remuneration

Details of the directors' basic annual remuneration are as follows:

	Basic annual remuneration
	US$'000
Mark Lerdal (executive chairman)	250
Stephen Coe (non-executive director)	70
Peter O'Keefe (non-executive director)	25

Directors' fees and expenses were:

30 June 2016	**Directors' fees**	**Reimbursements**	**Total**
	US$'000	US$'000	US$'000
Mark Lerdal (Chairman)	250	41	291
Stephen Coe	70	10	80
Peter O'Keefe	25	-	25
Total	**345**	**51**	**396**

30 June 2015	**Directors' fees**	**Reimbursements**	**Total**
	US$'000	US$'000	US$'000
Mark Lerdal (Chairman)	250	46	296
Stephen Coe	70	30	100
Peter O'Keefe	25	-	25
James Potochny	-	7	7
Total	**345**	**83**	**428**

Each director is also entitled to receive reimbursement of any expenses in relation to their appointment. Total reimbursement to the directors for the year ended 30 June 2016 amounted to $51,347 (2015: $83,399) of which $nil was outstanding at 30 June 2016 (2015: $10,286).

11. Basic earnings/(loss) per share

Basic and Diluted

Basic and diluted earnings/(loss) per share is calculated by dividing the earnings/(loss) attributable to equity holders of Leaf by the weighted average number of ordinary shares in issue during the year:

	Year ended 30 June 2016	Year ended 30 June 2015
(Loss)/Gain attributable to equity holders (US$'000)	(4,175)	4,526
Weighted average number of ordinary shares in issue (thousands)	120,967	128,746
Basic and fully diluted (loss)/ gain per share (cents)	**(3.45)**	**3.52**

There is no difference between the basic and diluted earnings per share for the year.

12. Investments

Investments in underlying investee companies (held through various wholly owned intermediary subsidiaries) comprise membership units, ordinary stock, and preferred stock carrying a cumulative preferred dividend, preferential return of capital and capped rights to share in profits. The directors, with advice from the in-house management team, Leaf Capital Management, LLC, and third-party financial advisor, DBO Partners (for the 30 June 2015 and 31 December 2015 Invenergy valuations only), have reviewed the carrying value of each investment and calculated the aggregate value of the Leaf Group's portfolio. Investments are measured at the directors' estimate of fair value at the reporting date, in accordance with IAS 39 'Financial Instruments: Recognition and measurement. Refer to note 23 for details about Invenergy and its valuation.

13. Critical accounting estimates and assumptions

These disclosures supplement the commentary on the use of estimates and judgments (see note 2.4).

Key sources of estimation uncertainty

Determining fair values
The determination of fair values for financial assets for which there is no observable market prices requires the use of valuation techniques as described in accounting policy 3.1. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical judgements in applying the Leaf Group's accounting policies

Critical judgements made in applying the Leaf Group's accounting policies include:

Valuation of financial instruments
The Leaf Group's accounting policy on fair value measurements is discussed in accounting policy 3.1. The Leaf Group measures fair value using the following hierarchy that reflects the significance of inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments quoted market prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

13. Critical accounting estimates and assumptions (continued)

Critical judgements in applying the Leaf Group's accounting policies (continued)

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Leaf Group determines fair values using valuation techniques.

Leaf, through its wholly-owned subsidiaries, holds full or partial ownership interests in a number of unquoted clean energy companies. These investments are classified as level 3 in the fair value hierarchy.

13.1 Investments at fair value through profit or loss

The following table shows a reconciliation of the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy.

	Year ended 30 June 2016	Year ended 30 June 2015
Balance brought forward	117,320	103,300
Derecognition of convertible note investment upon conversion	(95,000)	-
Recognition of equity investment upon conversion of convertible note	95,000	-
Additional investments in subsidiaries	366	3,280
Repayment of capital by investee companies	(3,910)	(2,010)
Proceeds from sale of investments	(2,454)	(5,902)
Transaction related expenses paid and included in realised loss/gain from sale of investment	-	207
Movement in fair value of investments	4,378	18,445
Balance carried forward	**115,700**	**117,320**
Total gain/(losses) for the year included in profit or loss relating to investments held at the end of the reporting period.	4,374	21,288

Investments are stated at fair value through profit or loss on initial recognition. Loans are reviewed for impairment in conjunction with the related equity investment in the investee company. All investee companies are unquoted. Leaf has an established control framework with respect to the measurement of fair values. The directors, with advice from the in-house management team, Leaf Capital Management, LLC, have overall responsibility for all significant fair value measurements, including Level 3 fair values. The in-house management team regularly reviews significant unobservable inputs and valuation adjustments.

13. Critical accounting estimates and assumptions (continued)

13.2 (a) Significant unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs used at 30 June 2016 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Description	Fair value at 30 June 2016 US$'000	Valuation technique	Unobservable input	Range	Sensitivity to changes in significant unobservable inputs
Unlisted private equity investments	$115,700	Market multiples, income approach	Operational multiples	$62/mm tons - $87/mm tons	The estimated fair value would increase (decrease) if the operational multiples were higher/lower.
			Discount rates	8.8%-20%	The estimated fair value would increase/(decrease) if the discount rate were lower/higher
			Forecast cash flows	n/a	n/a
			Forecast cash flows (lawsuit outcomes)	$54.8mm - $138.0mm	The estimated fair value would increase/(decrease) if the lawsuit outcome cash flow were higher/lower

The table below sets out information about significant unobservable inputs used at 30 June 2015 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Description	Fair value at 30 June 2015 US$'000	Valuation technique	Unobservable input	Range	Sensitivity to changes in significant unobservable inputs
Unlisted private equity investments	$117,320	Transaction and market multiples, income approach, transaction terms	Operational multiples	$48/mm tons - $109/mm tons	The estimated fair value would increase (decrease) if the operational multiples were higher/lower.
			Operational multiples	$1,640/kW - $2,326/kW	
			Discount rates	12.9%-17.0%	The estimated fair value would increase/(decrease) if the discount rate were lower/higher
			Forecast cash flows	n/a	n/a
			Transaction terms	n/a	n/a

13. Critical accounting estimates and assumptions (continued)

13.2 (a) Significant unobservable inputs used in measuring fair value (continued)

Significant unobservable inputs are developed as follows.

Operational multiples: Represent amounts that market participants would use when pricing the investments. Operational multiples are selected from comparable public companies based on geographic location, industry, size, target markets and other factors that management considers to be reasonable. The traded multiples for the comparable companies are determined by dividing the enterprise value of the company by its operational metric and further adjusted if appropriate for considerations such as the lack of marketability and other differences between the comparable peer group and specific company.

Discount rate: Represents the rate used to discount projected levered or unlevered forecasted cash flows and terminal value for a project or company to their present values as part of the calculation of enterprise value for the project or company. Leaf uses a capital asset pricing model (CAPM) approach to calculate a discount rate appropriate for each project or company.

Forecast cash flows: Cash flows are forecast by Leaf by considering possible operational scenarios and transaction terms, the amount to be paid or received under each scenario and the probability of each scenario. In the case of Invenergy, they also consider alternative possible outcomes for the damages that might be awarded in Leaf's lawsuit against Invenergy.

13.2 (b) Effects of unobservable input on fair value measurement

Although Leaf believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects on Leaf's net asset value (NAV) at 30 June 2016 ($ millions): (Favourable: 17.6, Unfavourable: (59.6)).

The favourable and unfavourable effects of using reasonably possible alternative assumptions for the above unobservable inputs for the valuation of Leaf's unlisted private equity investments have been calculated by varying these inputs in the applicable valuation models based on a reasonable lower and upper range as determined by Leaf Management. The most significant unobservable inputs are the discount rate, the forecasted cash flows for lawsuit outcomes and operational multiples. The discount rate used in the models at 30 June 2016 ranged between 9.8% and 17% (with reasonably possible alternative assumptions ranging between 8.8% and 20.0%). The forecasted cash flows for lawsuit outcomes used in the model was $122.2mm, with reasonably possible outcomes of $54.8mm and $138mm. The operational multiple used in the model at 30 June 2016 was $74/mm tons, with reasonably possible alternative assumptions of $62/mm tons to $87/mm tons.

For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects on Leaf's net asset value (NAV) at 30 June 2015 ($ millions): (Favourable: $27.8 million, Unfavourable: $37.5 million).

The discount rates used in the models at 30 June 2015 ranged between 12.9% and 17.0% (with reasonably possible alternative assumptions ranging between 13.6% and 23.9%). The operational multiples used in the models at 30 June 2015 ranged from $62/mm tons to $81/mm tons, and $2,097/kW, with reasonably possible alternative assumptions of $48/mm tons to $109/mm tons, and $1,640/kW to $2,326/kW.

14. Financial instruments not measured at fair value

The financial instruments not measured at fair value through profit or loss are short-term financial assets and financial liabilities whose carrying amounts approximate their fair value, these are all categorised within level 2 of the fair value hierarchy.

Notes to the consolidated financial statements for the year ended 30 June 2016 (continued)

15. Trade and other receivables

	Year ended 30 June 2016 US$'000	Year ended 30 June 2015 US$'000
Inter-company receivables	373	214
Prepayments	137	153
Other receivables	-	1,667
Income tax refund receivable	-	28
Total	**510**	**2,062**

Amounts due from group companies are unsecured, interest free and receivable on demand.

16. Cash and cash equivalents

	Year ended 30 June 2016 US$'000	Year ended 30 June 2015 US$'000
Bank current account balances	5,947	12,522
Sub Total	**5,947**	**12,522**
Restricted cash	30	30
Total	**5,977**	**12,552**

17. Trade and other payables

	Year ended 30 June 2016 US$'000	Year ended 30 June 2015 US$'000
Other creditors	584	86
Audit fees payable	65	75
Income tax payable	-	243
Administration fees payable	45	50
Total	**694**	**454**

18. Share capital

Ordinary shares of GBP0.0001 each	Number of shares	Share capital US$'000	Share premium US$'000
At 30 June 2015	**128,745,726**	**28**	**306,809**
At 30 June 2016	**118,162,853**	**27**	**297,046**

The authorised share capital of the Leaf Group is GBP25,000 divided into 250 million ordinary Shares of GBP0.0001 each.

Under the terms of the placement on 22 June 2007, Leaf issued 200,000,000 shares of GBP0.0001 each par value at a price of GBP1 each. The difference between the issue price and the par value was transferred to share premium account, net of share issue expenses.

Leaf have repurchased 10,582,873 shares during the current year. Share capital and premium received was translated to US Dollars at the exchange rate prevailing at the date of receipt of the proceeds.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of Leaf. All shares rank equally with regards to the Leaf Group's assets.

18. Share capital (continued)

Capital management

At an extraordinary general meeting ("EGM") held on 1 July 2014, Leaf's shareholders voted to accept the board's proposed resolution to change the Leaf Group's investment strategy to an orderly realisation and return of capital to the shareholders, which will occur on an asset-by-asset basis in timeframes appropriate for each asset. The details of the new strategy are disclosed in the EGM circular for this meeting, which can be found on Leaf's website.

The Leaf Group's capital comprises share capital, share premium and reserves and is not subject to externally imposed capital requirements.

19. Income tax

	Year ended 30 July 2016 US$'000	Year ended 30 July 2015 US$'000
Current tax expense		
Current year	4	245
	4	**245**
Deferred tax expense		
Temporary differences	3,549	8,219
	3,549	**8,219**
Tax expense on continuing operations	**3,553**	**8,464**

The Leaf Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

			Balance as at 30 June 2016		
2016 US$'000	**Net balance at 01 July 2015**	**Recognised in profit or loss**	**Net**	**Deferred tax assets**	**Deferred tax liabilities**
Investments held at fair value through profit and loss	(8,219)	(11,768)	(11,768)	9,339	(21,107)
Net tax assets (liabilities)	**(8,219)**	**(11,768)**	**(11,768)**	**9,339**	**(21,107)**

The deferred tax asset has been calculated using a 35% top US federal tax rate. The deferred tax liability has an effective tax rate of 40% which consists of a 35% top US federal tax rate plus an estimate of 5% for the blended state tax rate, taking into the account the deductibility of state taxes in the calculation of federal taxes.

20. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions.

Leaf's directors are related parties and details of their fee arrangements are given in note 10 and their shareholdings are disclosed under report of the directors.

The company's incentive plans disclosed in note 9 will be paid out to related parties.

Leaf's wholly owned subsidiary, Leaf Capital Management, LLC ("Leaf USA"), in Arlington, VA provides asset advisory, portfolio management and certain administrative services to Leaf.

21. The subsidiaries

The consolidated financial statements comprise Leaf and the following consolidated subsidiary:

	Country of incorporation	Percentage of shares held
Leaf Capital Management, LLC	USA (Delaware)	100%

The following subsidiaries of the Leaf Group are held at fair value on the consolidated financial statements in accordance with IFRS 10:

	Country of incorporation	Principal activity	Effective interest held
Energía Escalona Coopertief U.A	Netherlands	Hydro Energy	87.5%
Escalona B.V	Netherlands	Hydro Energy	87.5%
Energentum Energias Renovables S.A. de C.V.	Mexico	Hydro Energy	87.5%
Energía Escalona s.r.l.	Mexico	Hydro Energy	61.3%
Leaf Invenergy Company	Cayman Islands		100%
Leaf Invenergy US Investments, Inc.	USA (Delaware)		100%
Leaf LFG Company	Cayman Islands		100%
Leaf Biomass Investments, Inc.	USA (Delaware)		100%
Leaf SkyFuels Company	Cayman Islands		100%
Leaf Solar Company	Cayman Islands		100%
Leaf VREC Company	Cayman Islands		100%

22. Capital commitments

As at 30 June 2016, there were no capital commitments in respect of investments.

23. Investment in Invenergy

On 21 December 2015, as previously announced, Leaf filed a lawsuit in Delaware Court of Chancery (the "DCC") against Invenergy alleging, in part, that Invenergy breached the Third Amended and Restated Limited Liability Company Agreement governing the membership interests in Invenergy (the "Operating Agreement"). Leaf alleged that Invenergy was required to either obtain Leaf's prior consent to a sale of 832 megawatts of Invenergy's wind power generation facilities to TerraForm Power for approximately $2 billion (the "TerraForm Transaction"), or, absent such consent, make a payment to Leaf upon the closing date of the sale.

On 28 December 2015, Invenergy exercised its rights under the Operating Agreement to redeem the LLC membership units owned by Leaf, and Leaf exercised its right to put these units to Invenergy.

On 7 January 2016, Leaf received a $3.9 million cash distribution from Invenergy pursuant to the terms of Invenergy's Operating Agreement.

On 15 April 2016, Leaf filed a motion for partial judgment on the pleadings with respect to its claim that Invenergy breached the Operating Agreement.

On 30 June 2016, the court granted Leaf's motion, ruling that, because Invenergy did not obtain Leaf's prior consent to the closing of the TerraForm Transaction, Invenergy breached the Operating Agreement by not "paying upon closing to Leaf cash proceeds equal to or more than its applicable Target Multiple". The court's ruling did not determine the amount of damages to which Leaf is entitled, which will require further proceedings. Such further proceedings are ongoing. Leaf believes the damages, pursuant to a formula contained in the Operating Agreement, were $126.1 million on December 15, 2015, the date of the breach. Leaf believes such damages should be reduced by the $3.9 million previously reported tax distribution from Invenergy. Leaf also believes that, if it prevails in the litigation, it will be entitled to interest on the judgment at the Delaware statutory rate of interest of 6%, compounded quarterly, from the date of the breach. Because of the inherent risks associated with litigation, and collection if Leaf prevails, together with income taxes and transaction expenses associated with the judgement, the Board of Directors has valued the investment in Invenergy at $99.1 million as at 30 June 2016.

23. Investment in Invenergy (continued)

Invenergy disputes that Leaf is entitled to the damages Leaf is seeking and believes that Leaf is entitled, at most, to nominal damages. Invenergy is also asserting that any obligation it owes to Leaf is excused because of the put/call process described in the interim statements. Invenergy called Leaf's interest in Invenergy on 28 December 2015. On the same day Leaf put its interest to Invenergy in order to mitigate its damages from Invenergy's breach. Each party appointed a third party appraiser to value Leaf's stake in Invenergy. The results were $73.1 million (from the appraiser appointed by Leaf) and $36.4 million (from the appraiser appointed by Invenergy). The next step in the put/call process is for Leaf and Invenergy to agree on a third appraiser. It is Leaf's position that the put/call process is not relevant because the above mentioned breach occurred prior to the exercise of either the put or the call.

If Leaf does not prevail in the litigation, the ultimate recovery of the investment in Invenergy will be substantially lower than the expected proceeds from the litigation.

24. Subsequent Events

On 18 July 2016 Leaf filed a motion asking the Delaware Chancery Court to award damages to Leaf of approximately $126 million, less the $3.9 million of capital returned to Leaf, based on the definition of Leaf's applicable "Target Multiple" provided in the Operating Agreement. In addition, Leaf asked the court to award Leaf 6% interest on the net $122 million amount from the date of closing of the TerraForm Transaction to the date that Invenergy pays Leaf.

Invenergy has disputed that Leaf is entitled to the damages Leaf is seeking and has asserted its belief that Leaf is entitled, at most, to nominal damages. Invenergy is also asserting that any obligation it owes to Leaf is excused because of the put/call process described in the interim statements.

Refer to note 23 for further description of the Invenergy lawsuit and valuation.