

## CFOAM Limited – June 2018 Quarterly Activities Report

Triadelphia, WV, USA: CFOAM Limited (ASX: CFO, the Company), through its 100%-owned subsidiary CFOAM LLC (CFL), the developer of CFOAM® carbon foam products used for ultra-high-end performance engineering materials in the industrial, aerospace, military and commercial product markets, is pleased to report its June Quarterly Activities Report and Appendix 4C.

### Highlights:

- Production for the quarter increased 15% to **2,783 production units** of CFOAM® products. This was the largest quarterly production volume for the current financial year and was achieved following an extensive platform review of the Company's production assets and coal supply chain management, which yielded highly positive outcomes.
- As a result, **product inventory** increased by 35% from 4,178 units to a total of 5,641 production units. Most of the current inventory is lower density CF25 production billets, a large part of which will be sold in the months ahead, to be deployed in various industrial applications such as in fire-proofing applications for new high-rise building construction, transportation, structures for machining tools and the US Navy exhaust uptake program. This inventory build-up represents a material revenue tailwind (about US\$1.5mn when fully sold), at little to no additional incremental production cost over the course of FY19.
- Product shipments for the June quarter were more than 20% higher than the previous quarter. This growth was due to a sharp increase in shipments during the month of June, which accounted for about 60% of all quarterly shipments. This late surge in shipments was due to the timing of a successful new coal qualification initiative, which enabled the Company to resume shipments to composite tooling customers later in the quarter.
- Consequently, **actual receipts** from CFOAM® products sales were **US\$168,716**, ~ 65% lower than the March quarter with accounts receivable being US\$141,718 at 30 June 2018 as the **receipts for the June product shipments did not occur until after quarter-end**, given the average 30-day accounts receivable cycle.
- Furthermore, as at the end of June, there remained a significant **backlog of ~US\$450,000 of open Purchase Orders**, with a large portion of these relating to the aerospace composite tooling market.
- This quarter's "*variability in sales and shipments*" was expected and mentioned in the March Quarterly Activities Report. As the Company's platform stabilises and scale grows, this level of visibility on production, shipments and cash receipts will continue to improve.

- As the above indicates, the Company continues to see sizeable sales opportunities. To this extent, the platform review that was conducted at the beginning of the quarter and temporarily impacted operations was necessary to ensure consistency of product supply. The subsequent performance over June and into Phase 1 commissioning is very encouraging.
- Of significant importance, as part of this broad and extensive platform review, the Company was able to **qualify a new source of coal** during the quarter. This new coal now enables CFO to produce high-specification, higher-density CF30 products that meet the requirements of the more stringent composite tooling applications. These applications represent a significant portion of the Company's current primary sales markets and will enable the Company to address the positive sales backlog over coming months, while also achieving greater consistency in quality and production. It should also be noted that this review reflects the Company's demonstrably enhanced technical capability regarding not only coal sourcing but also overall CFOAM® product testing and platform-wide technical expertise – as the Company's production model moves clearly towards strict engineered specifications, dispensing with much of the "art" seen in prior cycles.
- Complementing this approach to more stringent coal sourcing, the Company is now operating **its wholly-owned Blairsville, PA, coal pulveriser**. This coal grinding facility, which is a very substantial piece of capital equipment, will enable the Company to control this critical part of the manufacturing process, resulting in increased reliability of supply, markedly improved quality control and lowering production costs - particularly evident as volumes ramp up.
- Overall, the total capital investment for the Blairsville construction project amounts to ~US\$750,000 (85% of which was incurred prior to quarter-end). The Blairsville facility's grinding capacity exceeds current and future volume requirements across Phases 1 and 2.
- **Capital investments** spent during the quarter amounted to **US\$1,093,686**. This included the capital costs associated with the final stages of construction and start-up of the coal pulveriser as well as the implementation of the Phase 1 expansion program. Concurrently, the Company received a US\$913,415 disbursement from Summit Community Bank (**Summit**) during the quarter, as part of the full financing of the Phase 1 project that was established earlier this year.
- **Commercial development activities and other key accomplishments** that took place during the past quarter include:
  - The Company experienced a significant increase in new testing development activity and the number of active discussions with new accounts following the JEC 2018 World composite trade show in Paris during March.

- The Company added a major composite tooling account, a counterparty which has the potential to become a critical and significant customer for CFO in the short and medium term.
- The Company also received its first order from Touchstone Research Laboratory (**Touchstone**) in relation to the strategically significant US Navy exhaust uptake program. Touchstone placed a first order of 38 cubic feet as part of a 600 cubic feet blanket purchase order.
- The Company proceeded to significantly upgrade and enhance its organizational capability by recruiting experienced senior executives to join the management team and by hiring additional staff in its manufacturing operations in preparation of the Phase 1 capacity expansion start-up.
- During the quarter, CFO materially improved its cash position by completing a A\$2.125 million share placement and successfully renegotiating the terms of the note payment to Touchstone (The Company repaid Touchstone US\$487,719 in the quarter). This significantly extends the Company's financial runway until such a time as it is generating positive operating cashflow, after production and sales ramp-up following the Phase 1 expansion.

### Outlook

- **Ramp-up of manufacturing operations** – the Company expects a significant production ramp-up following the successful start-up of its Phase 1 expansion in July, ahead of schedule. The significantly increased scale of the Company's operations will also greatly benefit from the combination of the new coal sourcing capability and the Blairsville grinding operation, especially so in terms of improved product quality and productivity gains.
- The Company projects that **Capital Investments** for both the Phase 1 capital and Blairsville pulverizer projects will amount to ~US\$320,000 prior to the closing of these programs in the September quarter. Concurrently, we expect to receive a total of ~US\$287,000, which corresponds to the amount of the Summit loan that remains to be disbursed by the time of closing of the Phase 1 project, in the September quarter.
- In addition, we anticipate spending ~US\$225,000 in the September quarter for the pre-engineering and scoping of the Phase 2 project, which will add to the ~US\$90,000 already spent on this program as at the end of June.
- CFO projects **increased product sales and shipments** as the Company is now able to meet both the pent-up customer demand at June quarter end and the growing demand that is anticipated from existing and new customers over the next few months.
- This confidence in customer demand growth in the short and medium term is supported by the **acceleration of the Company's commercial development activities** in the last few months, including the nearly 100 active pre-commercial discussions

and contacts CFO currently has with companies across the globe, and in multiple industry sectors

- In addition, as compared to the 30 April 2018 **Sales Pipeline update**, the salesforce continues to make significant progress at all stages of the Company's commercial qualification process:
  - **Category 1 – commercial customers: 19 customers (+2)** in applications that include: composite tooling/aerospace, aerospace structures, defence, lightning/heat dissipation, audio, composite tooling/boats and electronics;
  - **Category 2 – customers close to qualification: 19 customers (+1)** in applications that include: composite tooling, batteries, fire-resistant parts, space/rocket nozzles, defence, heat dissipation, structures for machining tools, transportation and electric conductivity;
  - **Category 3 – customers performing tests evaluation: 58 customers (+18)** in applications that include: composite tooling, cookware, transportation, space, defence, construction, chemicals and water filtration.
- In addition to ongoing growth and upgrades evident in the sales pipeline, the Company's focus has also shifted to enabling potentially large “**strategic customers**” to qualify CFOAM® products in their respective specific applications. In this regard, the Company is making substantial inroads, particularly in three major markets which are potentially very large sources of future additional demand for the Company:
  - In composite tooling, sales are ramping up with a major counterpart and enabling further sales growth by having CFOAM® products specified in the manufacture of composite tools by large OEMs in the space and aeronautical industries;
  - In transportation, the Company is in active development with major OEMs and companies in the aerospace, rail and ship-building industries related to the use of CFOAM® products in applications such as flooring, joiner/sub-panel and other structural applications;
  - In building materials, CFO is in active discussions and testing programs for the use of CFOAM® products as fireproof materials in various construction applications.
- In addition to the 600 cubic feet blanket purchase order for the US Navy exhaust uptake program, which will be filled over the coming months, the Company anticipates that Touchstone's total demand will continue to grow in the short and medium term, through the rapid growth of their advanced composite tooling business and a marked ramp-up in the US Navy exhaust uptake program, post successful sea-trials in H1-2019. Moreover, the Company also anticipates that, owing to Touchstone's unique knowledge and insight into the benefits of using CFOAM® products, CFO's future business will further benefit from the various new applications Touchstone are currently developing in military and non-military applications, some of them having the potential to become very large sources of demand.

- While the Company reasonably does not expect that *all* of these developments will be commercially scalable, at least in the short and medium term, any of these abovementioned opportunities would likely be sufficiently large as to fulfil a significant proportion of the Company's anticipated 70,000+ cubic feet per annum Phase 2 capacity. The **Active planning phase for the Phase 2 expansion program** is progressing very well, as scoping, costing and site selection options continue to be considered and evaluated. Meanwhile, discussions and strategic evaluation activities are ongoing in close collaboration with the State of West Virginia. The Board expects to be in a position to present and approve a fully scoped, financed and finalised proposal concerning the Phase 2 expansion program this quarter.

***Executive Director and CEO, Alain Bouruet-Aubertot commented:** "The Company reached a number of key milestones in the June quarter. We upgraded and strengthened our manufacturing operations and supply chain management, resulting in enhanced coal sourcing capability, improved product quality and increased productivity. In addition, commercial development activities accelerated and are starting to generate growing sales at new accounts. We also strengthened our cash position and enhanced our organizational capability. In effect, we completed the turnaround phase that was initiated a year ago. As a result, we now have the necessary foundations to successfully ramp up sales and manufacturing operations following the start-up of our new Phase 1 kiln in July, while, at the same time, we are entering into the final planning phase of a Phase 2 expansion that will further triple our production capacity."*

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### **About CFOAM Limited**

CFOAM® products are an inorganic carbon material that is manufactured from coal, pitch or lignin feedstock. CFOAM® products manufactured in this process have a rigid foam structure, similar in appearance to pumice stone, but with entirely different properties. CFOAM® products are currently used across a wide variety of markets including composite tooling for the aerospace sector, energy absorbing applications and defence applications. Additional markets such as the automotive applications for energy absorption and fire resistance are also expected become significant to the Company over time.

CFOAM® products were developed to meet the growing demand for ultra-high-end performance engineering materials in the, industrial, aerospace, military and commercial product markets.

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