

ASX ANNOUNCEMENT

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Companies Announcement Office
ASX Limited
Level 6, 20 Bridge Street
Sydney NSW 2000

CFOAM LIMITED SECURES A MINIMUM OF US\$ 3 MILLION THROUGH A CONVERTIBLE NOTE ISSUE TO EXISTING MAJOR SHAREHOLDERS AND SOPHISTICATED INVESTORS

TO:

- FUND PHASE II EXPANSION STUDIES, CAPEX AND PLANNING
- EVALUATE A CAPITAL STRUCTURE REVIEW THAT REDUCES BALANCE SHEET LEVERAGE AND TERMS OF REMAINING DEBT
- WORKING CAPITAL

CFOAM Limited (“CFO” or “the Company”), through its 100%-owned subsidiary, CFOAM, LLC, manufacturer of carbon foams CFOAM®, used for ultra high-end performance engineering materials in the industrial, aerospace, military and commercial markets, is pleased to provide the following funding update.

The Company has secured from existing major shareholders and sophisticated investors, subject to final documentation and shareholder approval, a raising of a minimum of US\$ 3 million through the placement of **Convertible Notes with a face value of US\$1 each (“Convertible Note Issue”)**.

The main terms of the Convertible Note Issue are as follows:

Term:	The Convertible Notes will be issued on the Subscription Date and shall be converted or otherwise redeemed within 36 months of issue (Repayment Date).
Conversion Price:	Each Convertible Note will be convertible into Shares at a conversion price equal to A\$0.18 per Share to satisfy the face value of the USD at the election of the Subscriber as follows: <ol style="list-style-type: none">1. Using the exchange rate set at the Subscription Date; or2. The exchange rate set at the date of the Prepayment Notice or the Conversion Notice, with the exchange rate to be not less than A\$1.00 = US\$0.50 (the Conversion Price).
Interest:	(a) Interest is payable on the Principal Amount from the Subscription Date until the Convertible Notes are either redeemed or converted into Shares at a rate of 4% per

	<p>annum, calculated monthly and payable six monthly in arrears/accruing daily on a simple interest basis from the Subscription Date and computed on a daily basis on a year of 365 days.</p> <p>(b) The Subscriber may elect for the interest to be compounded on a six monthly basis, with the interest to be added to the notional value of the Notes to be converted into shares at the Repayment Date, or converted prior to the Repayment Date upon receipt of written notice by the Company (Conversion Notice).</p> <p>(c) Interest not accrued is repayable in cash.</p>
<p>Conversion:</p>	<p>Subject to the Company obtaining any shareholder approvals required, prior to the Repayment Date the Subscriber may provide a Conversion Notice to the Company such that the Convertible Notes may be converted in whole or in part into Shares at the Conversion Price (the Conversion Shares).</p>

On 11 April 2018, the Company completed a placement to existing institutional and sophisticated investors. At this time, Toby Chandler or his nominee and Gary Steinepreis or his nominee proposed to participate up to a total of A\$350,000 ("**Related Parties**") on the same terms as the placement and subject to shareholder approval. Due to a number of factors the Shareholder Meeting was not held and the Related Parties have confirmed that they will provide their support to the Convertible Note Issue instead as follows - Toby Chandler or his nominee will apply for up to US\$ 175,000 and Gary Steinepreis or his nominee will apply for up to US\$ 350,000 ("**Related Parties**") as part of, and on the same terms, as the Convertible Note Issue, subject to shareholder approval.

In accordance with the existing placement capacity under Listing Rule 7.1, 5,750,357 securities will be issued up to this limit as Convertible Notes (**Tranche 1**). This will occur on a progressive basis prior to 16 November 2018 based on using a fixed conversion price of A\$0.18 and as result of the convertible notes being in USD this calculation is impacted by an exchange rate floor to be not less than A\$1.00 = US\$0.50.

The balance of the Convertible Notes and participation by the Related Parties, under the same terms of those in Tranche 1, is to be subject to shareholder approval at a General Meeting of Shareholders to be convened in December, expected to be prior to 14 December 2018 (**Tranche 2**).

The Company intends to use the funds raised from these Convertible Notes predominantly for repayment of the promissory note commitment to Touchstone Research Laboratory, Ltd (**Touchstone**), Phase II related payments and working capital.

Highlights of the Convertible Note Issue, Shareholder and Company Advantages

- Funds raised under the Convertible Note Issue will be used to repay promissory debt issued to Touchstone at the time of the IPO. Interest obligations on the Convertible Note Issue will likely be minimal as virtually all Subscribers have indicated that they will elect to compound the semi-annual simple interest due on the Convertible Notes, in preference to redeeming the Face Value of the Notes and converting into shares at the Conversion Date.
- The Convertible Note Issue effectively returns the Company back to a position with a more manageable Net Debt to Equity position (~25%) – in conversations with potential investors, it had become clear that the capital structure implemented at the time of the IPO was inadequate. It is anticipated that this stronger balance sheet will alleviate growing pains and allow a platform for growth unencumbered by legacy capital structure issues.
- As the Company expects to be demonstrably cashflow positive in calendar year 2019, the revenue realized will be used to build retained earnings and internally fund expansion opportunities, rather than being directed to repay legacy debt. Initial due diligence on the financial merits of the Company's intended expansion suggests very strong returns on invested capital, creating greater shareholder value.
- All participating investors are demonstrated "long term holders" of the Company's shares, and are viewed by the Board as strategic, highly sophisticated and/or high net-worth investors who add measurable value and solidity to the Company's share register.
- No options or warrants have been issued in conjunction with the Convertible Note Issue and a zero Placement or Introduction fee (typically 6%) will be paid on a material majority of the Issue.

Phase 2 Planning Update

The Company has already received excellent support from various West Virginia government bodies ("**State**") for its Phase I expansion and has commenced active discussions with the State, and related bodies, regarding funding packages for a greenfield development that would see the Company relocate to a completely new, purpose-built industrial site, and possibly also relocate the existing platform at the present Triadelphia, WV facility. Feedback from the State has again been positive and initial due diligence on the financial merits of the Company's intended expansion suggests very strong returns on invested capital. *Significantly, all external sites currently being evaluated would have potential for additional expansion beyond Phase II – a long-term strategic expansion plan ultimately resulting in hundreds of thousand cubic feet per annum CFOAM® production. The Company expects to complete all operational, executional, locational and financial due diligence in the near-term and be in a position to commit to its initial Phase II expansion (with a circa-45,000cft per annum capacity increase) in first quarter-2019.*

Touchstone Research Laboratory

Negotiations with Touchstone are ongoing regarding earlier-than-scheduled debt payments in exchange for lengthening the term of the Dec 2019 repayment.

As previously announced, the Company has amended its debt obligation owing to Touchstone as part of the original IPO when CFO was effectively spun-out from Touchstone.

The renegotiated secured promissory notes due to Touchstone are as follows:

- (i) Original US\$800,000 promissory note with a term of 5 years and an interest rate of 3% per annum, and which is secured by a first lien security interest over the Assets. Payable monthly on a reducing principal basis. Balance at 30 June 2018 was approximately US\$542,000
- (ii) US\$2,350,000 promissory note which will accrue interest at 2% per annum and be secured by a second lien security interest over the Assets. This promissory note and any accrued interest is payable as follows:
 - (A) US\$450,000 plus all unpaid accrued interest is payable on or before 15 January 2019; and
 - (B) US\$1,900,000 plus all unpaid accrued interest will be paid in full on or before 15 December 2019.

CFO Management and Board are committed to an expansion plan beyond Phase I and are confident that once the Company has the necessary scale to supply the quantities of carbon foam demonstrably demanded on a global scale, revenue generation and real commercial visibility will see greater and greater production capacity increases progressively achievable. The financial metrics of an expanded production platform, even at a nameplate capacity of just 25,000cft per annum to be achieved with Phase I are compelling.

The Board looks forward to updating shareholders on further material developments over the coming months as the sales and production capacity increases and planning for Phase II continues.

For further details, please contact:

Alain F. Bouruet-Aubertot
Executive Director/Chief Executive Officer
E: abouruet@CFOAM.com

Toby Chandler
Executive Director
E: tchandler@CFOAM.com

Todd Hoare
Executive Director
E: thoare@CFOAM.com

Gary Steinepreis
Executive Director/Chairman
E: gsteinepreis@CFOAM.com

About CFOAM Limited

CFOAM® is an inorganic carbon material that is manufactured from coal, pitch or lignin feedstock. CFOAM® manufactured in this process has a rigid foam structure, similar in appearance to pumice stone, but with entirely different properties. CFOAM® is 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® was 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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